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INDIAN CURRENCY COMMISSION

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A REVIEW OF THE PRINCIPAL EVIDENCE RECORDED
DURING THE FIRST SESSION

BY D. E. WACHA

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PREFATORY NOTE.

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This brochure contains in a collected form the series of articles which I recently contributed, from the Indian point of view, to the columns of the *Bombay Chronicle*, reviewing and commenting on the evidence of some of the typical witnesses, official and non-official, examined by the Royal Commission on Indian Currency in London during its first Session.

D. E. WACHA.

December, 1913.



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INDIAN CURRENCY COMMISSION.

(I.)

COMPOSITION OF THE COMMISSION, CHARACTER OF WITNESSES AND NATURE OF EVIDENCE.

Now that the full proceedings of the Royal Commission on Indian Currency which sat for its first term at Whitehall, in London, from the 27th May to 6th August last, are published, we propose from time to time to refer to the salient parts not only of the evidence recorded but of the many important papers and statistics of the greatest value which are embodied in the first two volumes of Appendices. In all twenty-seven sittings had been held, during which twenty-two witnesses were examined, the number of questions asked having aggregated 9,019. The work gone through was indeed solid and speaks volumes for the assiduity and patience of the Commission. The twenty-two witnesses may be classified as under:—

- 4 representing the India Office.
- 12 non-official Anglo-Indian bankers and merchants.
- 1 non-official English banker.
- 2 Anglo-Indians representing the Indian Government.
- 1 retired Anglo-Indian official.
- 1 Indian official.
- 1 Indian non-official.

Of the twelve Anglo-Indian non-officials three were bankers and nine merchants, of whom three were representatives of Bengal, three of Bombay and Sind, two of the United Provinces and two of Madras. The English non-official was an Ex-Governor of the Bank of England. The Indian official was Mr. Bhupendranath Mitra, C.I.E., Assistant Secretary to the Government of India in the Finance Department. The non-official Indian was Mr. M. A. Sundra Iyer, Secretary to the Economic Association, Madras, nominated by the Madras Government.



INDIA OFFICE AT THE BAR.

It may be observed at the outset that it is our intention to give in brief the salient points of evidence from the different witnesses which, in our opinion, have an important bearing on the reference made to the Commission. We shall refrain from making any categorical inferences, believing that it would be premature to do so. Our own opinion may be freely pronounced when the remaining evidence has been recorded. Wedded to no particular dogmas or heresies, and representing none but the interests of the Indian tax-payer, we shall be free to base our criticism at the proper time, aided by the light of the final report of the Commission itself. There is no doubt that already a vast amount of evidence has been taken which is of a conflicting character. Indeed, it cannot be otherwise, having regard to the various interests which the several witnesses ostensibly represent. In reality, the India Office, as represented by the Secretary of State, and the Government of India, are at the bar of the Currency tribunal. The evidence of the witnesses they will put forward, during the second term, will be in the nature of the defence of the existing system. Those witnesses will point out, as some have already pointed out, how far the allegations hurled against the existing practice as to cash balances, sales of Council Bills, gold standard and paper currency reserves and other cognate matters of the greatest financial technicality and complexity, are founded on facts, and how far on an incorrect apprehension of the real financial position of the Government,—a position naturally liable to be misunderstood because of the secretive character of the Government, partially dictated by expediency and partially by reasons of State, whether right or wrong. The non-official evidence will, at the same time, clarify many nebulous notions, better explain the mechanism of exchange, money and kindred topics, throw light on erroneous conceptions which may be still entertained by the Government, and offer suggestions which, while benefiting the general, not any particular, interests of the public, will benefit the State also. On the one hand we shall find that the State has reasons of its own to shape its financial currency policy from time to time, according to its many exigencies, and to maintain the interests of the general tax-payer whose monies alone are at stake, on the other we shall notice how specific interests will contend, sometimes with great emphasis, to



achieve specific objects only which, perchance, might be wholly detrimental or prejudicial to the interests of the general public.

A MINE OF INFORMATION.

So far as to evidence already recorded and to be recorded. As to the Appendices, our experience informs us that to earnest students of any particular burning problem under investigation by a dispassionate and disinterested tribunal, they are invariably a mine of information. Buried in their pages there are to be found oftener than not papers, despatches, and statistics of the highest value. These, when carefully digested, are of great assistance towards founding fair criticism on the evidence of many a witness. They, in fact, form a kind of historical foreground which being understood enables one to weigh evidence better and detect more critically many a fallacy. For instance, in these two volumes of Appendices, containing 633 pages of solid matter, there is ample quarry. We can dig into the mine and bring to the surface many a gem and many a long-buried treasure. To refer to naught else, the first fifty pages of the first volume are in themselves exceedingly readable. They throw back the shroud of years in reference to the controversy touching cash balances, raised by various Chambers from 1874 down to the most recent times, when that Goliath of cash balance interests for the trade, no other than Mr. Montagu Webb, opened his campaign. The reader will be surprised to find what a complete answer the Government has made from time to time, and how far many an erroneous or exaggerated statement has been successfully combated. The reader will learn for himself from the many elaborate and well-reasoned papers and despatches on this one subject alone, that the different Chambers and their apologists are far from infallible, and that oftener than not their strongest case, when judged by the light of evidence adduced by the Government, collapses like a house of cards. All plausibilities, sophisms and fallacies are seen in their true perspective, and the unbiassed student of Indian finance is bound to admit the justice and relevancy of many a statement of defence put forward by the Indian Government, some salient samples of which we shall by and by reproduce as we proceed with our own study of the ponderous Blue-books.



(II)

EARLY HISTORY OF CASH BALANCES AND THE BANK OF BOMBAY.

It has been already stated that in all 9,019 questions had been put by the Commission to 22 witnesses examined during the first term of its sittings. It may be useful to observe that the first four witnesses examined were officials belonging to the India Office. They were Mr. Lionel Abrahams, the Assistant Under-Secretary of State; Mr. Francis Newmarch, the Financial Secretary; Mr. Walter Badcock, the Accountant-General; and Mr. Horace Scott, broker to the Secretary of State in Council. As many as 2,274 questions were put to these four witnesses, that is to say, a little over 25 per cent. of the total number. This fact should be borne in mind, inasmuch as these four officers between them adduced ample evidence of the past financial transactions between the Government of India and the Secretary of State supported by quite a formidable pile of correspondence, including important State despatches and elaborate statistical returns which throw immense light on the problems the Commission has been appointed to solve. They have, indeed, played the role of financial historians of the India Office and repositories of the most authentic information. As such, the evidence of these witnesses must be held to be of the highest importance. It is past history, but history which throws an amount of searchlight on the many statements made outside the Commission, and before it, by the divers representatives of non-official, commercial and financial bodies, is to be greatly appreciated. Such searchlight alone enables an unenlightened public to weigh the recorded evidence and deduce therefrom an unbiassed inference. Of these 2,274 questions, as many as 1,324 were put to Mr. Abrahams alone. Hence he was the most important witness examined on behalf of the India Office. Not only did he answer those questions, but in support of the answers made he placed before the Commissioners a mass of correspondence and statistics which occupy fully 216 out of the 335 pages of the first volume of the Appendices.

SURPLUS CASH BALANCES.

It is superfluous to observe that the principal plank of the agitation raised by Mr. Webb, the Bombay Chamber of Com-

merce and other cognate bodies, was the expediency of the State making available to trade, at certain seasons of the year, part of the surplus cash balances of the Treasury to a larger extent than before. That agitation was sought to be justified by the exhibition of a variety of cash balance figures for some recent years. This, however, was done without any very serious attempt at acquiring the information available to the agitators. It is clear from the evidence of Mr. Abrahams that this controversy, touching the use of surplus cash balances, is not of recent date. It has been now and again before the public and the Government from 1874, if not earlier. It is not as if the Government had not given sufficient information in the past to some of the important Chambers. For Mr. Abrahams has submitted to the Commission a mass of correspondence that had passed on the subject between those bodies and the Government. Then there are public declarations and statements made by the Finance Minister of the day at Budget time. Again, there are *precis* of the interviews held by that officer with some of the commercial bodies. It is a matter of regret that sufficient care had not been taken by the agitators during the course of the agitation, *prior* to the appointment of the Commission, to educate themselves. None of the bodies have categorically referred in their latest communications to those past records. So far, it is to be feared, the public, outside the pale of these clamant but influential organisations, have been misled. A frank avowal ought to have been made of previous controversies on the subject of the full, sufficient, and fairly convincing replies the Government had made. In its absence most of the public seem to have inferred that the Government had no case, and the agitation of the commercial bodies was perfectly justifiable.

PAST HISTORY OF THE QUESTION.

In public controversies of this character, so vital to the interests of the general tax-payer, it is both wise and honest that the past history of such should be made known. The present generation is hardly aware of what happened thirty or forty years ago. Most of the protestants were, perhaps, not even in the country and many of the Committee-men of to-day could not have taken the ordinary care to inform themselves of the aspects of the question years ago. For, to us, it appears from the papers published in the Appendix, Volume I, that there is hardly any radical change in the opinion of the Government as

to the extent of the limitations to which surplus cash balances should be made available to trade. The sound reasons which prompted the Government during the last 30 years and more to restrict this lending to Presidency Banks still hold good. Sir William Meyer was standing on firm ground, when the other day he reminded the Bombay Chamber that while the Government held fast by the principle governing the temporary loan of cash balances, it had gone out of its way to make a larger sum available than agreed to between itself and the three Presidency Banks. What is clear as the noonday sun is this: that if, as pointed out by the commercial bodies, cash balances in recent years have swollen (though the Government give a complete answer to that in the White Paper presented to Parliament in May last), the Government has very considerably made more monies available to the Presidency Banks than they were entitled to under their agreement.

WHAT HAPPENED IN 1874.

The following extracts from one of the earliest of State papers on the subject will be found most instructive. In their despatch, dated 30th June, 1874, the Government of India observed (para 3):

We have been much impressed with the consideration that the effect of the existing agreements with the Banks which compel us to place all the cash balances belonging to Government in their hands leads to consequences which may be very inconvenient, if not worse, both to Government and to trade. The only use of these balances to Government is that they may be made available the moment the public service requires them.

As a matter of fact it did so happen that when the Government wanted its balances with the Bank of Bombay, immediately available for a public purpose, that Bank *refused* and created difficulties which had to be overcome after a long correspondence. Here are the words of the despatch:

The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances, had so employed them that they were practically locked up, for had we insisted on drawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless to the purposes of the Government.

That was a serious matter at the time. But the fact shows what was the danger in those days to the public when a Presi-



dency Bank using the monies of the tax-payer was not able when demanded to give any! It will be readily admitted, therefore, that there was just ground for the Government to observe as follows in the seventh paragraph of the same despatch:

We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the Banks. It appears to us that an element of uncertainty is thereby introduced into the money market, not unlikely to aggravate commercial difficulties at a time of tightness.

Who can gainsay the practical wisdom of Government which is the sole guardian of the tax-payer's funds! The Government of the day was so impressed by the events of 1874, and specially by the absurd attitude of the Bank of Bombay, that they early recommended the Secretary of State to put an end to the agreement then prevailing with the Presidency Banks. That eventually led to the formation of the numerous district treasuries where the cash balances of the Government are now deposited to be commanded and controlled as exigencies require.

A PREGNANT OBSERVATION.

In the reply to that despatch of 30th June, 1874, the Secretary of State, no other than Lord Salisbury, had some very damaging observations to make in the eleventh paragraph, which those intent on the past history of cash balances should carefully study. It will repay perusal (Appendix, Vol. I, p. 33). But here is a pregnant observation which may be commended to all bankers and Chambers of Commerce. "I agree with your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks." Certainly! But our modern men of commerce fancy they can have a dip into the State Treasury whenever its balances are large, in order that they may carry on their trade at a cheap rate of interest! The wish is natural, but it ignores the great State principle touching the safety of public funds and the exigencies of the Government at any moment. So far it must be admitted that the cry of the trade is not only extremely selfish and one-sided, but opposed to all principles of State finance.

(III)

WISE FINANCIAL STATESMANSHIP OF THE GOVERNMENT.

The despatch of the Secretary of State, dated 6th May, 1875, in reply to one of the Government of India of 30th June, 1874,

foreshadowing for sanction the future policy which should be pursued in reference to making available a part of the State's surplus cash balances, is of such historic interest, and, besides, so valuable even to-day for appreciation of the prevalent controversy in a just and fair spirit, unshackled by the influence of any particular or class interest, that no apology is needed to some further observations therefrom, beyond those already quoted to. Here is what Lord Salisbury observed in reference to the new arrangements proposed by the Government of India with the Presidency Banks:

Your proposal that a minimum balance should be fixed, all deductions from which should carry interest against you, appears to me to be reasonable. Without such a protection, express or implied, it would be difficult for the Banks to transact business with so large a customer. You would naturally take care to fix a minimum which should not impose any burden upon the State beyond what is necessary for their fair remuneration. Any such arrangement should be supplemented by a corresponding provision, that the balance which you think fit to leave with the bank exceeds a fixed minimum, and if the Bank should desire to retain them, they should bear interest in your favour.

It will be seen that the underlying principle insisted upon all through by the Secretary of State is the command and control of the funds temporarily placed with the Presidency Banks, without any unfairness to those institutions. It seems that the same principle is *still* in vogue with the Government. The only difference between the old controversy and the one raised for some months past, consists in the larger amount which the commercial bodies, heedless of this sound principle, are so eager the Government should make available to the Presidency Banks. Reading their contention between the lines, the student of finance and banking would easily discover that what was wanted by the Banks was an "open sesame." That was the hidden object. Is it unnatural that Sir William Meyer, reading that contention in the light we have just pointed out, submitted to the Bombay Chamber the following pertinent queries:—

1. "For what period you desire assistance and up to what estimated amount you would like the Government to provide money?"
2. "Do you desire that money to be in the shape of loans given to the Presidency Banks or merely by means of expansion of the deposits with these banks?"



3. "If in the shape of loans what terms of interest do you suggest, and what do you consider should be the currency of the loans?"
4. "How should the repayment of the loans be secured; by deposit of Government securities or otherwise?"

Those are legitimate queries which a Finance Minister, who is the watch-dog of the surplus funds of the general tax-payer, is in duty bound to put to the men of commerce who, instead of finding accommodation by independent means, open to all other persons of their class in the world, seek to benefit themselves, even for a few short months, at the expense of the tax-payer who, to them, is quite a negligible entity!

THE CRUX OF THE QUESTION.

But let us hark back to the minatory observations of the Secretary of State, observations which have not lost an iota of their force and significance, even after a lapse of nearly 40 years, observations which are exceedingly relevant even to-day to enlighten the general public and guide them to a right understanding of the larger problem of public finance,—how far any Government can make surplus funds belonging to the general body of tax-payers available to a particular interest. *That is the whole crux of the question.* It is this question which the Currency Commission will have to answer with Rhadamanthine impartiality. The question involves two important propositions: (1) What are the relations of a Government and its obligations towards the general tax-payer; and (2) how far a Government can safely and wisely deem it right, in view of those obligations, to favour a class interest?

Lord Salisbury solved the problem very correctly. He observed to the Government of India that they should "take care to make it clearly understood that the amount of your deposits is discretionary, and that, if it is convenient to you at any time to retain in the Treasury the proceeds of the revenue, the Banks possess no rights in respect to it that will entitle them to complain." Nothing could be clearer than this declaration of the policy of the State, and yet they scream aloud, ignoring the fact of the State's own duties and obligations to the tax-payer, whose monies it holds in trust for the benefit of all and no particular class.



But here follows another pregnant observation which is full of cautious statesmanship:

In ordinary times you will not probably wish to retain money in the Treasury. If any apprehension or difficulty is felt, or if the course taken by any Bank indisposes you to trust it with the custody of large deposits, it will be at your discretion to hold back the growing produce of the revenue in the Treasury instead of paying it over to the Bank. At a very brief notice, you will be able to accumulate in your own coffers, the two millions which you judge to be necessary for your security in times of pressure, even if a large portion of it cannot be provided by drawing upon your balances. Any sum so reserved you will deal with according to the exigencies of the time. It will be competent for your Financial Department to retain it in the Treasury to lend it for short terms under suitable conditions as to interest and security.

THE PRESENT PRACTICE.

It may be said that all along for these many years the Financial Department has been following this wholesome policy. At the same time it should be remembered that the exigencies of the Indian Government are such, with its growing revenue and its corresponding expenditure, that it now requires at the very least from eight to ten millions as the late Sir James Westland informed the Bombay Chamber deputation some few years ago. It is even more now. Nay, whenever the balances have swollen they have made more monies available to the Presidency Banks, as so well pointed out by Sir William Meyer the other day, and so conclusively proved by Mr. Lionel Abrahams himself in one of the important papers on the subject submitted to the Commission. For instance, in Paper No. II (*vide* page 3 of Appendix I) Mr. Abrahams observes that, while the existing agreement with the Banks is to hold for the Government at their head offices without interest amount as follows, namely,

Bank of Bengal	£233,000
Bank of Madras	£120,000
Bank of Bombay	£133,000

in actual practice, the Government of India is much more liberal to the Banks than is provided for in the agreement. They usually keep at the head offices of the three Banks, the following amounts:—

Bank of Bengal, £467,000 to £533,000
Bank of Madras, a little over £133,000
Bank of Bombay, £333,000



It is evident that the Banks are insatiate. Their appetite for balances grows more, the more they get, and still they cry aloud for more! Under the circumstances none can gainsay that the Finance Minister was not justified in telling the Bombay Chamber that they were a little "unkind" to the Government which was dealing with the Banks more liberally than warranted by the bond.

A WHOLESOME PRECAUTION.

But there is yet another extract which is as brimful of sound common sense as it is of practical statesmanship. There is Lord Salisbury's injunction that the Banks

should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities. A weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced should be supplied by a responsible officer who should be bound to a true statement under penalty. You will at the same time require such confidential returns as may be necessary to place your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the Banks and to the character of their operations. If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection which might impose upon you in the public view an undue responsibility for the management of the Banks, and would, in other respects place the Government in a false position towards them.

Every experienced banker would, we venture to say, heartily approve of the above wholesome and sound precaution. Lord Salisbury had, no doubt, at the date of the despatch, justly in his mind the startling revelations which the Bank of Bombay Commission had made in 1871 with regard to the disastrous collapse in 1867 of the old Bank of Bombay. The injunction that the Presidency Banks should not embark on foreign exchanges was, indeed, most far-sighted and extremely called for. Otherwise, it is not difficult to assert what some of those Banks might have ventured upon and what losses they might have incurred during the eighties when exchange was going down alarmingly at a rapid rate. We cannot but admire the extreme care, caution and foresight the Government have all through exercised in this matter in relation to the Banks. They have admirably safe-guarded the interests of the tax-payers, and yet it is amazing to notice how again the cry has been heard that those Banks should be permitted to deal in foreign

exchanges! It may be that exchange is on a somewhat stable footing, thanks to the purely artificial prop of the Gold Standard Reserve. But the events of 1907-08 show how there still lurks a great danger in permitting these Banks to deal in foreign exchanges. Indeed, we all know how the Exchange Banks themselves have looked with disfavour on this unwise proposal and expressed their views accordingly to the Government. It is to be hoped that the Commission by a majority (for there are at least two or three members who are in favour of it) will set its face against this resurrected cry, so fraught with risk as it is even under existing conditions.

(IV)

UNWISDOM OF PRESIDENCY BANKS IN MAKING THEIR
BANK RATE DEPENDENT ON GOVERNMENT
OPERATIONS.

Pursuing the history of this interminable controversy on the cash balances, a reference may be made to some other extracts from the State despatches. The Bombay Chamber of Commerce made a grievance, in its letter of 1st August, 1888, to the Government of India touching the heavy withdrawals of the State funds from the Bank of Bombay. That authority in its reply, dated 8th September, 1888, pointed out how "a definite policy" had been laid down on the subject of the deposits when the Presidency Banks Act of 1876 was under discussion in pursuance of Lord Salisbury's despatch of 6th May, 1875. The Chamber was reminded that nothing had "since occurred to disturb the foundations on which it rests." The Government drew the attention of that body to paragraphs 7 and 8, of their despatch of 30th June, 1874, to the Secretary of State. Paragraph 7 stated: "We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the Banks. It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness." Can the Chamber venture to deny the correctness of this statement? Then paragraph 8 said: - "An amount of capital which is large, relatively to the whole capital engaged in trade at the Presidency towns, is supplied by Government, but Government, for reasons quite uncon-



nected with trade, may have to withdraw those balances suddenly." Next is para. 13 from the despatch of the Secretary of State, dated 6th June, 1875, which is exceedingly pertinent:—

The time has come when His Majesty's Government must consider how far those relations shall continue. Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure. The development of trade has lessened the cogency of this reason and I agree with your Excellency in the doubt you express as to the real value of artificial facilities which arise from large Government cash balances with the Banks. Capital supplied by Government and not representing the savings of the community as a resource on whose permanence no reliance can be placed and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resources, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good.

A SHORT-SIGHTED POLICY.

Those were words of the highest wisdom and caution. No experienced banker even to-day would dare minimise their force and significance. Trade, even since 1888, has taken immense strides in India. Not to go too far, only the other day a correspondent in these columns clearly exhibited both the progress of the foreign trade and of the various banking institutions and their resources since 1900. He showed that while the growth of the former was 92 per cent., that of the latter was 150 per cent. It was a remarkable growth. In fact, it emphasised the absolute correctness of the observations made in the paragraph just quoted. As trade advances banking resources also expand. That ought to make the trade rely more and more on those larger resources and less and less on temporary State cash balances which, as rightly pointed out, are an accident, and liable to be withdrawn at any time for political or other exigencies. No right-minded person, uninfluenced by any interests, can deny that, under the circumstances, what is essential is, not to beg for temporary accommodation of funds from Government, but to extend and develop their own independent monetary resources which are neither accidental nor liable to sudden shrinkage, provided legitimate banking, with the salutary caution needed, is invariably exercised. It would seem an exceedingly short-sighted policy for any body of commercial men to adopt in any part of the world,

which would seek pecuniary aid, which at the best is "artificial," even temporarily, from Government, knowing that such aid is precarious and liable to be withdrawn. Such short-sightedness would at a crisis signify the greater aggravation thereof rather than any mitigation of it. To us it is plain that in demanding to have a dip into the accidentally swollen cash balances of the State, Anglo-Indian commercial bodies are courting a great danger to their own commercial prosperity in times of severe monetary stringency. A well-known and experienced Calcutta merchant, no other than Mr. Bullen Smith, was constrained to observe, that "those institutions were now in a position to go alone, which they were not at the time of the original establishment, and that support which was in the early days almost necessary was now no longer required." If a merchant of sound views expressed himself in the above manner in 1888 *a fortiori*, the merchants of 1913 should, we expect, be able to emphasise it even in a greater degree, having regard to the more prosperous position of these Banks. The very fact of their earning dividends exceeding 12 per cent. per annum, and their shares being quoted in the open market at over *three times* their paid-up capital, proves beyond doubt how they are situated; and yet most absurdly they appeal to Government for further aid. If they are in need of more money, in view of expanding trade, why will they not fairly increase their capital so as to meet the larger demand? It may be taken for granted that as soon as they invite such capital, it will be doubly subscribed.

DANGEROUS ARTIFICIALITY.

Was it wrong, if under the circumstances prevalent in 1888, the Government of India further impressed on the complaining Bombay Chamber that

the Government cannot in its own interests revert to the system by which its use of its own balances was dependent on the policy of the Directors of the Presidency Banks, based as it necessarily was upon commercial necessities and not upon anticipations of State demand; nor is it, in the opinion of the Governor-General in Council, advisable in the interests of the commercial public that the state of the money market should be subject to violent fluctuations, and the rate dependent on Government operations which would be the result of placing the entire Government balances at the disposal of the Presidency Banks.

Of course, the Chamber and the Banks do not cry out now for the old arrangement. But all the same may we not inquire



whether any sensible person would deny the force of the reasoning adduced by the Indian Government? On our part, we unhesitatingly assert that the policy laid down has our whole-hearted support. The artificiality to which the Indian Government has referred is dangerous. In fact, on more than one occasion it has needlessly wrought monetary stringency. As soon as the Government cash balances materially diminish Bank rates go up. Why? Because Banks do yet so largely but unwisely depend on these balances of Government. Were they to become *wholly independent*, as logically they ought to, they would not have to regulate their Bank rate from week to week on the basis of the Government balances at all. If there is to be a monetary stringency it would be solely on account of the larger demand of money, and the Banks would know beforehand how to restrict the demand so as to ease the stringency, just as the Bank of England, the Bank of France, and the Bank of Germany do. But it may be taken for granted that, so long as the Presidency Banks rely on this artificial prop of State funds, they will always create unnecessary stringency. They have done so before and are certain to do so in future. Is that really advantageous to any monetary or commercial interests? We answer in the negative.

(V.)

TRADE SHOULD BE LEFT TO DEPEND ON ITS OWN FINANCIAL RESOURCES.

The extracts reproduced in the preceding chapters will have convinced the public how far the policy laid down by the Government as far back as 1875, and eventually embodied in the Presidency Banks Act of 1876, was not only in consonance with sound banking principles but salutary in the best interests of the general tax-payer. The Chamber airily conjured that entity as its fat-milch cow. The Government dispelled most forcibly that illusion. But not a jot abashed, while feeling the telling observations of the Government, the Chamber ventured once more, like the gamester who stakes his last dice, to controverting the many unchallengeable statements of the governing authorities! And it is meet that reference should be made to the further correspondence that ensued between the two bodies, because it really goes further to elucidate the entire policy of the Government of India and give it greater emphasis. The Chamber, therefore, addressed a fresh letter to the Government

on 4th October, 1888, in reply to the one of that authority dated 8th September. At the outset it had to offer its apology for having been led into error as to fact. It, however, persisted in its contention by observing that "the broad fact remains that by the withdrawals in question, and notwithstanding the precautions which the Government were apparently desirous of exercising, the money market was suddenly and unexpectedly transformed from a position of exceptional quietude and ease to one of extreme stringency, and the market rate of discounts was practically advanced in one day, without the preliminary indications which generally accompany such movements, from about 2 to 4 per cent. per annum." *Hinc illae lachrymae.* In making the above observation, the Chamber appeared to have "apparently" ignored the very fact to which the Government had drawn its attention, namely, the danger of stringency arising from always depending on State cash balances which, after all, were "artificial." Practically the Bank rate proved to demonstration the unanswerable argument urged by the Government.

Next, entering again into controversy touching the declared policy of the State, the Chamber observed in the 6th paragraph of its letter as follows: "Trade and industrial enterprises have undergone enormous expansion in the interval, that is, between 1875 and 1888, "necessitating and attracting banking facilities in proportion, so that at certain seasons of the year there is an active demand for capital which would enable Government to earn a remunerative rate of interest on their unemployed funds; their placing same at the disposal of a market so greatly developed in extent and resources would not be attended by the same risks as were rightly held to be involved thirteen or fourteen years ago." Driven to its logical conclusion, the above proposition meant that, though banking facilities and resources had developed largely in 14 years, yet trade was going forward by leaps and bounds! Ordinary commercial instincts might have suggested under the circumstances to the active spirits of the Chamber to put their heads together and devise what further means should be adopted to meet a largely growing trade. No. That would not suit the purposes of the Presidency Bank. It did not urge that institution to go ahead, *pari passu* with the expanding trade, which would have been the counsel of perfection, but to rely on the precarious cash balances of the general



tax-payer! Increase of Bank capital signified a smaller dividend among the proprietary. That did not suit the Bank. No. It must make hay with the sun of the cash balances in the State Treasury. Here one can clearly learn for himself the Gospel of Enlightened Self-Interest.

GOVERNMENT'S PROMPT REPLY.

Placed on its mettle, the Government of India was prompt with its rejoinder. In its letter of 12th January, 1889, after prefacing the remark, that they do not "consider it desirable to prolong the discussion," the attention of the Chamber was invited to the paper by Mr. James Westland. A copy of it was passed on to that body, so that it is to be presumed that it is still on its records. The letter proceeded to observe:

The Governor-General in Council hopes that the facts stated in this paper will convince the Chamber that the Government does not maintain balances in excess of actual requirements and that the method of dealing with those balances is sound. His Excellency in Council is satisfied that no substantial change in either of these respects is called for, and that no such change could be adopted consistently with the pursuit of a prudent policy in meeting the requirements of the State.

That statement shows how firm the Government were and how firm they are even to-day in spite of the latest agitation, ill-informed as it seems to be, from the evidence and papers of Mr. Lionel Abrahams. Again, we meet with another pregnant sentence which is full of political and financial wisdom but which the Bank and the Chamber have even now consciously or unconsciously ignored:

The Government of India does not see its way to comply with the desire expressed both by the Bank and the Chamber that the Treasury balances could be used, in a larger degree than at present to facilitate trade. The Chamber's remarks have been carefully considered, but the Governor-General finds himself unable to depart from the policy hitherto adopted. His Excellency cannot agree with the Chamber that the arguments on which that policy was based in 1873 have lost their force at the present time.

The same observation applies even to-day to the latest agitation. But to proceed:

Trade has certainly expanded, but with the expansion banking facilities have proportionately increased and it is less in need of State support than in 1875. The volume of trade and demand of money are steadier, and less liable to violent fluctuations throughout the year



than they were in past periods, and it is not necessary therefore to adopt special measures to prevent fluctuations which are rarer than was the case when the policy of Government was formulated.

We are confident that neither the Bank nor the Chamber would have the temerity to gainsay the fact. Indeed, though they have recently urged the identical contention which they did in 1888, even the man in the street must admit that banking facilities have so largely increased, and violent fluctuations have been so rare, that it is surprising any outcry should have been raised in the year of grace, 1913. The official records and statistics, which are available to the Bank, the Chamber, and the public alike, inform us that in proportion to the volume of trade the banking resources of the country are 60 per cent. more.

ESSENCE OF FINANCIAL SAGACITY.

But what follows is even of greater importance and ought to be firmly borne in mind by our "commercial agitators" at this juncture :

His Excellency in Council is, moreover, convinced that nothing but evil would result from the adoption of the suggestion that the Government should enter into competition, in making loans to the mercantile community with the Presidency Bank. Trade should be left to depend upon its own financial resources. If advances were systematically made by Government during the busy season there would be a tendency to reduce the working balances of the country to an unsafe minimum and the consequent risk of panic, to guard against, which is an important object of the Reserve treasuries.

This is the very essence of judicious and cautious financial sagacity. But it is amazing that this observation of the governing authorities should have escaped the notice of such shrewd men of business as those who guide the helm of Chambers of Commerce and Presidency Banks in different parts of the country. When they clamour for larger cash balances to be made available, in order, ostensibly, to avert stringency, they seem absolutely to forget that they are demanding something which must eventually bring about a panic. Nowhere else could such a demand be made, and all State and other Banks would show their doors to the agitators and ask them to mind their own business. Whether eventually a State Bank is or is not established, at least one advantage of its institution would be that no such outcry and no such demand as is now so heedlessly made on the Government would be possible. Such a Bank



would be fully capable of managing its own affairs and regulate the money market so as to avoid stringency or panic. And it is here important to remember that the amounts which the United States Treasury made available to the "National Banks" there in 1907-8, on the deposit of gold and other certificates of a liquid character, did not save a crisis and the aftermath that ensued. What fatuity, then, has persuaded the Banks and the Chambers to demand larger cash balances? Can it be to diminish stringency or invite panic? Here, however, are the further thoughtful but most practical observations of the Government of India:

If advances were made at a lower rate than the published rate it would be difficult to confine the privilege of obtaining money at less than its value to the Presidency Banks, and these Banks would also be increasingly anxious to profit by such loans, and tempted to enter upon speculative operations with the resources placed at their disposal by the State allowing their own reserves to fall below the limit of safety.

THE SAFETY VALVE.

Here, it will be acknowledged by all those conversant with the practice of the Presidency Banks, that the Government has hit the right nail on the head, and pointed out the real significance of the agitation of 1888. The one now set on foot differs in no degree from it. It is almost identical, and therefore the trenchant observations of the Government of India stand good and fast. Of course, that authority was perfectly justified in declaring in 1888, as it is in declaring in 1913, that

it is not prepared to adopt a course which would tend to produce such results, and the deliberate conclusion of the Government is that any assistance to the relief of the money market which may be afforded by the Treasury Reserve can only be made through the Bank, and at its published rate of discount in relief of temporary stringency, and that no departure from the policy hitherto pursued can be allowed.

Of course not. In reality the Banks are keen on obtaining balances from the State at a lower rate than their published one and advance it at such a rate as is profitable to them. Practically they want to make their hay while the sun shines at the expense of the general tax-payer. Surely, no wise Government having the safety of public funds at heart can ever play into the hands of this clamant and influential class. As trustees of the tax-payers the Government are bound to sit tight on the safety valve they have deliberately created.

(VI)

THE FUNDAMENTAL FACTS ON WHICH THE STATE CASH
BALANCES ARE REGULATED.

In the preceding chapter reference was made to Sir James Westland's views on the cash balances. As we are proceeding with their history it is useful to remind the reader at this stage what led that able officer to prepare his Note. The account may be given in his own words: "In passing through Bombay I had a conversation with Mr. Forbes Adam on the subject of the recent correspondence about Government cash balances between the Bombay Bank and the Bombay Chamber of Commerce (of both of which institutions he is the President) on the one side, and the Government of India upon the other, and adopting the suggestion which he made to me, I propose to put on record this general sketch of the manner in which the Government cash balances are managed." This "Note" of Sir James Westland, to the important contents of which we shall presently refer, must evidently be in existence in the archives of the Bombay Chamber. In the statement he read at the meeting of that body, where Sir William Meyer, our present Finance Minister, was invited to be present, and which was published in the columns of the dailies on 29th August last, we do not notice any allusion whatever by the President to this historic Note which lucidly and exhaustively dilated on this problem. Of course, Sir Charles Armstrong was perfectly right in referring to the approaching monetary stringency he and his colleagues, and presumably the Bank of Bombay, apprehend for the reasons stated. He did not digress, but we think it would have been fair to the Government of India itself, which, on the whole, has been extremely liberal, more liberal than warranted, had he referred to this Note of Sir James Westland. The statement was worded as if the Chamber were not in possession of any official correspondence on the subject! At any rate, that would be the inference fairly deducible by those who are making themselves fully and fairly acquainted with the previous instructive history of the cash balances.

THE FUNDAMENTAL FACTS.

Sir James opens his "Note" by reminding the Chamber of the fundamental facts upon which depended the regulation of the balances. Those were:—



1. That the months of August, September, October and November produce far less than their proper share of revenue, and that the current expenditure during then has to be met to a considerable extent by a depletion of balances;
2. That the minimum balance with which the Government Treasury business can be worked, that is to say, with which we can undertake to have money ready at every treasury to meet the demand upon us, is at least eight crores of rupees.

It has been observed that the policy which dictates the regulation of the cash balances as above described is "antiquated." That, in fact, the exigencies of the expanding trade demand a revision of the policy. That, of course, is a matter which is now before the Commission. That body will, no doubt, take all relevant evidence from the officials of the Government of India and the bankers and merchants carrying on their business in this country, in order to arrive at the bottom of the facts. Much will depend on what the Government of India will have to urge as to the cash balances which its different treasuries should possess during the four months of August, September, October and November, when the outgoings for ordinary administration are necessarily in excess of the smaller revenue then flowing in. Sir James Westland opined in 1889 that at the very least eight crores should be kept during those months.

COMPARISON WITH 1890.

Now, let us exhibit the revenue and expenditure as it was in 1890 and in 1912:—

	In crore rupees.	
	1890-91.	1912-13.
Revenue	85.74	130.57
Expenditure	82.05	125.47

It seems that on an average 10 per cent. at the least of the total expenditure was deemed essential to keep in the treasuries. If we take the same percentage, the Government should hold 12½ to 13 crores. And that during a fair agricultural year only. What balance beyond this amount the Government should in these days make available to the Presidency Banks is the problem to be solved. And, as we have stated, it will depend on what the witnesses of the Government may have to urge as to the necessities of the Government. Whether they should reserve 12 or 13 crores during the four months from August to November, will

depend on the final verdict of the Commission. That verdict, when accepted by the Government, will usher an era of a new departure. Meanwhile, let us give Sir James Westland's narrative, so far as it related to his time, in his own words, as it will greatly elucidate what at present seems nebulous or obscure:

There is a point at which it becomes more costly to make remittances than to increase the available cash. For example, I do not say it would be actually impossible to meet the demands on our treasuries with a minimum balance of seven crores; but it is certainly the case that any attempt to work the treasuries with that balance would be accompanied with an outlay in cost of remittances that would not fall far short of the 4 lakhs of interest which we would have to pay if we raised another crore to raise from 7 to 8 crores the amount at our disposal, and besides this there would be very great risks of our having to declare ourselves—at some of our treasuries—unable, pending the arrival of remittances, to meet our current obligations. What this would mean, apart from the discredit of it, may for a moment be glanced at. We might be unable to pay the soldier and create serious discontent in the army, we might be unable to meet the current expenditure of working or constructing railways, we might be obliged to stop important Public Works,—an extremely costly proceeding even if they are immediately resumed.

18 CRORES THE MINIMUM RESERVE.

Of course, it will be said that here Sir James was putting an extreme case. That is so. But that officer had to point out the possible contingencies of a measure which while favouring trade would bring a deadlock, discontent and, worse, "discredit" on the Government. In high financial matters of State, caution to a degree not called for elsewhere is absolutely essential. We will not go into other minute technical details into which Sir James exhaustively entered. But it will be readily admitted that "above all, there is the consideration that the treasury must, outside the Presidency towns, absolutely depend upon its own resources, and that there is no reserve of any kind upon which it may fall back if it is depleted." Proceeding further, Sir James suggested that "to represent the permanently possible condition we must first of all give a margin of 20 per cent. beyond the eight crores and put down about 200 lakhs of rupees as ordinarily absorbed in the actual meeting of demand upon the treasuries. On the whole, therefore, the really practical working balance may be put down at 1,000 lakhs, and it is only excess over that amount that can be regarded as held by the Comptroller-General in reserve." On this basis the Government



to-day ought to reserve 18 crores of rupees before any surplus is made available to trade.

(VII)

GOVERNMENT CANNOT UNDERTAKE WITHOUT GRAVE
DANGER TO FINANCE, TRADE AND COMMERCE WHILE
FINANCING THE ADMINISTRATION OF THE COUNTRY.

We have now brought to a close the history of the Cash Balances which have agitated the Presidency Banks and the important commercial bodies in the country for the last forty years. They have computed that, on an average, there is a severe scarcity or famine in India every 11 years. With equal truth it might be observed that the Government of India is overtaken with an external moral calamity, artificially raised by an interested class, every ten years, under the hollow pretext of monetary stringency or panic. Happily, the Government, all through this long period, has remained unmoved. The noisy agitation has in no way disturbed its equanimity. Not only has it sternly carried out the policy it laid down in 1876, but courageously and confidently met every challenge of the Chambers. The last agitation was made in 1898 and that by the Bengal Chamber. And it may be just as well to close this part of the currency agitation by what that potential organisation had to urge in the year mentioned, and the *coup de grace* given to it by the Government of Lord Curzon.

On 17th December, 1898, the Secretary of the Bengal Chamber of Commerce prepared a Memo. for its Committee as prepared by the Special Sub-Committee. Afterwards, on 11th January, 1899, a deputation nominated by the Committee of the Chamber waited upon the Honourable Sir James Westland, the then Finance Minister. It consisted of the President, the Hon. Mr. Turner, the Hon. Mr. Allan Arthur, Mr. Reginald Murray and the Secretary. To facilitate discussion, Sir James Westland drew up another "Note" on the extent to which the cash balances of the Government may be made available for commercial uses. Apart from the points of policy and other matters which he had dilated upon in his previous Note, ten years before, to the Bombay Chamber, there were others to which it is instructive to refer here. Paragraph 4 of the Note is exceedingly pertinent:



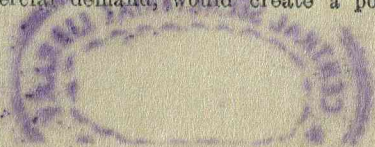
In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India. First, the balance in the Bank of England, large as it is, is after all a portion of the available cash in London. The number of banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account with the Bank of England, yet a large amount of the whole remains in their possession, and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place. In India this is not the case. The cash balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is, it is understood, sometimes an advance from the Presidency Bank.

So, here, we clearly discern the true dynamics of the Cash Balances. The tax-payers' funds are first grabbed by the Presidency Banks which, in their turn, allow a dip in them now and again to the Exchange Banks whose cash balances proper are extremely limited.

TREMENDOUS RESPONSIBILITY OF GOVERNMENT.

"Secondly," says Sir James Westland, "the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of Indian Presidency Banks. The withdrawal, say of five millions of Exchequer balance from the Bank of England, for the purpose of meeting Government payments due throughout the country, might deplete the available cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels, and the cash position of the Bank would be as strong as ever. In India, on the other hand, payments of the kind do not flow back till after a considerable time and partly do not come back at all. A war on the frontier, a famine in a province, heavy expenditure upon railways will absorb large amounts of cash, part of which dribbles back slowly, and part of which for practical purposes never comes back at all."

It seems that the Banks and the Chambers have either ignored this aspect of the Indian cash balances or considered them as negligible, though the Finance Minister averred that these considerations introduce great difficulty into the management of the Government balance in India. It is not merely that the Government are obliged to have close regard to the demands that are coming upon them in respect of payments due on the Government account during the next few months but that they are obliged to have regard to future commercial demands also. Just as the Directors of the Bank of England or of the Bank of Bengal, when they anticipate a strong commercial demand, would create a position of great danger





if they were merely to say: we have so many millions or so many lakhs in our treasure chest, and there is, therefore, no use of our interfering with the demand; let us go on giving out money so long as we possess any: so the Government in India is bound carefully to guard its balances against depletion brought about either by the payments which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand. The above imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time and carelessness of management of the same kind, a concession to immediate commercial demand without having any regard to the future, would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence of any margin to fall back upon.

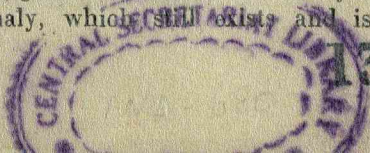
This is the language of financial statesmanship. The danger pointed out is real and we should like to see the banker or merchant who will deny its correctness.

Then, we should never lose sight of the tremendous responsibility of the Government, a responsibility to which the irresponsible clamourers for larger cash balances seem to be quite dead. They only want to paddle their own canoe, caring little for the responsibilities and anxieties of the State financial bark!

This is what Sir James Westland observed in his masterly review of the superficial representation of the Bengal Chamber:

The position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the banking and the mercantile community as the monetary system of India. The whole commerce of the country is made to depend upon the Government balance; and the whole responsibility for the maintenance of an available cash reserve in India being thrown upon the Government it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government. When Bank Directors, to meet the occasion I have been describing, put up the rate of discount they are said to do what is wise and proper, both in their own interests and those of the commercial public; when the Government being in India in a similar position takes similar measures it is considered to be deliberately causing an undue stringency of the money market!

That, indeed, was a telling rejoinder which no doubt the Bengal Chamber had fully deserved. The responsible action of Government is unjustly denounced. Such is the anomaly and the hypocrisy. It is a fresh illustration of people with a beam in their eye trying to gibe at the mote in the eyes of others! The sooner the anomaly, which still exists, and is a fruitful





source of danger, is removed the better. Perfectly justifiable, therefore, was the further observation of Sir James (paragraph 11): "The Government, in truth, cannot undertake to finance not only the administration of the country, but its trade and commerce also. Accordingly, when commerce finds a deficiency of available funds, the cause of deficiency should be sought for in the scarcity of banking capital and not in some action of the Government, which is expected, with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of 200 crores of imports and exports." Here is another telling rejoinder provoked by the Chambers.

Of course, Sir James received the Bengal Chamber deputation and discussed with its members *ad nauseam* the thrice-threshed out controversy. But it is superfluous here to refer to it. Suffice it to say, apart from the immediate topic, that it shows what a capital controversialist the deputation had to meet in the person of the redoubtable Sir James Westland who vigorously put them *hors de combat* at every point. It is a fine specimen of dialectics in high finance which should be perused in its original text.

THE FINAL "COUP DE GRACE."

Lastly, Lord Curzon's Government gave the final financial *coup de grace* to the Bengal Chamber in its despatch to the Secretary of State, dated 2nd February, 1899. We shall conclude this historical retrospect by quoting one sentence therefrom: "It is not our wish, and it must prove embarrassing in our own business, to give the Banks an open credit upon which they may operate or not as they please. It must always be remembered that in the management of public funds the requirements of the public administration come before those of trade and commerce." That is a golden maxim for the Government of India always to follow so long as this system of making available to the Banks a part of cash balances prevails. But, in our opinion, it is an anachronism, a dangerous anachronism which we should all like to see done away with for ever. The only safe and sound and right and proper course for the commercial and banking communities is to increase, independently of the State, and that permanently, their own banking resources and facilities. Let the Presidency Banks double their capital which is certain to be subscribed in no time, even at a large premium, and let us see this barren controversy, needlessly raised from time to time, buried for ever. Let the Indian witnesses earnestly urge for the

removal of this financial anachronism. And let the Commissioners themselves, not forgetting the Indian member, be the undertakers of this precious modern harpy.

(VIII)

MR. LIONEL ABRAHAMS' VIEWS ON THE ADVANTAGES AND
DISADVANTAGES OF A STATE BANK.

No doubt, after the Cash Balances, the topic of the most absorbing interest to the banking and mercantile community of India is the proposed establishment of a State Bank. Of course, there are the other problems of the Gold Standard Reserve and Council Bills. These will be dealt with a little later, but it will be most instructive for the reader to know what views the principal witness of the India Office holds on the subject of the Central Bank. The different witnesses already examined by the Commission have, of course, limned their own respective proposals. These can be best considered by the light of what Mr. Lionel Abrahams had to urge. Moreover, there will be yet ample time to offer our own criticism when all the other witnesses called, but not yet examined, have had their say. But just for the moment it might be as well for the reader to learn at this stage the advantages and disadvantages of the State Bank, as described by Mr. Abrahams in his paper submitted to the Commission and which forms Appendix XIV (Vol. II of Appendices, page 35). We need not say that the establishment of a Central Bank was proposed by Mr. Alfred de Rothschild in a paper submitted to Mr. Hambro during the proceedings of the Fowler Committee of 1898-99. Mr. Abrahams has formed his personal opinion on the advantages and disadvantages of such a Bank from his full acquaintance with the numerous communications of the Government of India and other public bodies and institutions on the subject which are on the records of his office, supported by his own knowledge.

ADVANTAGES OF A STATE BANK.

We will reproduce in his own words the advantages of a State Bank: "The chief advantages of a State Bank would be that the whole, or a part, of the money that is kept under existing conditions in the Reserve treasuries, and possibly a part of what is now kept in district treasuries, would be deposited with the Bank and thus placed at the disposal of trade, with the prospect



of a beneficial effect primarily on discount rates and ultimately on the general country and trade. The measure of this advantage depends mainly on the amount of money that would be transferred from Government treasuries to the Bank. It should be remembered, as Sir James Westland had clearly pointed out, that the State cash balances are at their ebb during the four months of August, September, October and November, when the out-goings are considerable, while the revenue flows in slowly and is not fully up to requirements for immediate disbursements ordinarily apart from what may be required at times when scarcity, if not famine, may be established by the end of September. Mr. Abrahams gives a "rough estimate" of the amount which would serve the Bank. Says he: "If a State Bank had been in existence in 1910-11 and 1912 and had held balances besides the sums actually in the Presidency Banks, the amount of the Reserve treasuries less £1,000,000 which would have been possibly retained by the Government as an emergency reserve, the additional money at the disposal of trade would have been as follows at the end of each quarter:—

In million pounds.

	Actually held in Reserve for Treasuries.	Deduct Reserves for emergency.	Additional amount at disposal of Trade.
30th June 1910	5.601	1.00	4.601
30th Sept. 1910	4.789	1.00	3.789
31st Dec. 1910	1.877	1.00	0.877
31st March 1911	4.437	1.00	3.437
30th June 1911	5.454	1.00	4.454
30th Sept. 1911	3.491	1.00	2.491
31st Dec. 1911	2.143	1.00	1.143
31st March 1912	3.506	1.00	2.506

There can be little doubt that the additional amount that would have been held in the bank in the first quarter of the calendar year, which is the period of greatest stringency in India, would have kept the discount rate below the maximum that was actually reached."

"If the practice of lending at certain times the Paper Currency Reserve is to be introduced, the best agency for carrying it would probably be a State Bank in charge of the Reserve and at the same time in touch with the commercial community."



"The existing system under which Council Bills and Telegraph Transfers are sold by the Secretary of State involves the transaction by him and his staff of work outside the ordinary sphere of a Government office. There would, therefore, perhaps, be some advantage in the cessation of the Secretary of State's sales of Council Bills, and the substitution of the sale of the India Office of a State Bank, of drafts on the Indian offices."

Secondly:—There would be an advantage in the reduction of the cash balance held by the India Office and consequently a reduction of a nature "not ordinarily falling on a Government."

Thirdly:—It might be advantageous for Government to borrow temporarily from a State Bank instead of issuing a loan.

Fourthly:—The Government would derive a pecuniary advantage from its share in the profits of the State Bank, representing in effect interest received from on the part of the balance taken from Reserve treasuries and other places where it now lies idle. Mr. Abrahams thinks not much of these petty advantages which would hardly contribute to any material economy. The efficiency attained at present under Government management would hardly, if at all, be improved by Bank management.

THE DISADVANTAGES.

Per contra, the Permanent Under-Secretary enumerates the disadvantages:

First:—If the three Presidency Banks are to be amalgamated with a head office in Calcutta, it would signify a material change in the present position of the Banks. "They are now independent," says Mr. Abrahams, "and have an undivided responsibility and in this position have probably acquired valuable and minute knowledge of trade conditions in their respective areas. The diminution of their responsibility and independence might have a lowering effect on their knowledge and efficiency, and they might be occasionally overruled from headquarters on matters on which it would be better that their judgment, based on local knowledge, should be followed." That is a contingency certain to occur. The other Banks would certainly resent any rebuff from the headquarters unless there is on the Board a representative of Bombay and Madras. Practically they will have to establish, as is provided in the Glass Bill of the United States, a "Federal Reserve Board."

Secondly:—Some question easy of settlement by themselves might arise as to the relations between London and the head office in Calcutta touching remittances and other matters which might be resented as an abuse of power by the head office and create friction detrimental to public interests.

Thirdly:—There will be a certain dead loss to Government by reason of the transfer of the business of the paper currency.

But all the advantages and disadvantages sink into insignificance, according to Mr. Abrahams, when the most important question arising from the institution of a State Bank is considered. "It is the effect of the Bank on the amount of gold imported in or exported to from India," in the maintenance of the exchange value of the rupee or on the stability and development of the existing currency system. But, in conclusion, we may allow Mr. Abrahams to speak in his own words on this question: "The probability of a State Bank being established depends mainly on the views taken by the Secretary of State, the Government of India and the Presidency Banks. The first two authorities were well disposed in 1901 to the suggestion for establishing a Central Bank, and may, therefore, be inclined to consider favourably the scheme sketched in the present Memorandum which is in effect a development in a more definite form of these suggestions. The position of the Presidency Banks in considering a scheme for a State Bank must necessarily be one of some difficulty. Whatever advantage to the public and the Bank may be anticipated from the establishment of a State Bank must be accompanied by some possibility of disadvantage to at least the two Banks not situated at the place which would be the headquarters of a State Bank. The recognition of this,—described by the Government of India in 1901, with perhaps a tinge of unnecessary harshness, as 'provincial and personal jealousies',—appears to have been one of the chief causes of the failure of the scheme discussed from 1899 to 1901. If the Royal Commission reports that a scheme deserves active consideration, the directors and shareholders of the Presidency Banks will be bound to give due weight to the danger of disadvantageous effects on their own status and efficiency, but it is at least possible that they may regard this danger as too remote to constitute a serious obstacle to a scheme that appears to hold out some prospects of advantages to the Indian commercial public as a whole."



STEERING CLEAR OF PRESIDENCY BANKS.

This is excellently put after the manner of the Judge who presides at a criminal session and sums up his charge to the jury. But after all much will now depend on the bulk of the evidence which will be given this coming session on behalf of the commercial public. -No doubt the Commissioners are quite alive to the advantages as well as the disadvantages of instituting a State Bank which has for its basis the amalgamation of the Presidency Banks with a head office at Calcutta. But if we can at this stage venture to offer an opinion, we should say that the State should steer clear altogether of the present Presidency Banks. These ought to be allowed to work out their own better evolution in the future. There are many difficulties and not a little danger to public interests in trying to bring round the three Presidency Banks, with their own individual environments, traditions, knowledge and experience to a unanimity. It would be the highest financial statesmanship to steer clear of them. The public would be greatly rejoiced to see a Central Bank like that of England or France or Germany established absolutely free from all vested interests, unshackled by any complicated arrangements, arrived at for purposes of reconciliation of existing interests of a most conflicting nature, and uninfluenced by any body of commercial agitators who may seek to promote their own peculiar interests. Let there be an independent Bank with such a reasonable capital, say 5 or 7 crores, as may be needed, which shall discharge all the duties of currency, including Council Bills, and manage the business of the State entrusted to it on a remuneration, and let it be left entirely free to conduct its business in consonance with the most modern requirements of legitimate banking. The Indian public would be only too glad to subscribe to such a State Bank with the greatest alacrity, feeling confidence in its permanence and stability. Capital to the extent of even 10 crores will be easily forthcoming. After all, what is wanted is (1) emancipation of the Government of India and the Secretary of State from transacting banking business of the nature they are transacting, a business which no civilised Government in the world transacts, and, secondly, additional facilities to the trades and industries of the country at large of money in meeting the annually expanding volume of both foreign and inland trade. The Indian public looks with the utmost dis-



favour on any Bank which may be started to offer facilities to a particular class or particular interests. The institution of such a class Bank would be fatal and worse than useless, and the Government of India and the Secretary of State should be warned against contemplating the institution of such a Bank.

(IX.)

MR. ABRAHAMS' ABLE AND STRIKING EVIDENCE.

We now proceed to give some of the striking points of Mr. Lionel Abrahams' evidence. The examination took four sittings, during which 1,324 questions were put. We have carefully followed him through those questions dealt with by some of the members of the Commission, and bound to say that we have the highest admiration for the grasp, ability, presence of mind, and absolute impartiality which he displayed throughout in the several answers, some of a very catching character, put to him, whether in reference to the declared policy of the Government or to the practical aspects of the much-controverted Cash Balances and Council Bills, of monetary stringency and rates of interest. Transferred to India, Mr. Abrahams would certainly prove one of the most brilliant of trained Finance Ministers, just the person most needed to radically overhaul the obsolete financial machinery now in vogue. The Government are to be congratulated on having in their service at the seat of ultimate authority such a capable, well-equipped and well-informed witness as he. We cannot withhold our admiration for the marked ability and judicial impartiality he displayed in defence of the policy of the Government. The talent and ingenuity of all the members of the Commission combined were not able to shake a single one of his main contentions. Here and there one may learn from the evidence his ready admission of matters of an unimportant or inconsequential character. But nothing beyond occurred to disprove any statement. At times a Comptroller-General in India may have erred and vexed the soul of the Presidency Bank managers. While frankly admitting minor errors, which could hardly be said to have had any effect save that of a ripple on the surface of the sea, Mr. Abrahams gave the ready rejoinder to his questioner (Q 90) that even "Comptrollers-General are not perfect 24 hours a day and 365 days in the year."

The cross-examination of Mr. Gladstone and Sir James Begbie was exceedingly searching. To the most catching question of

the former he gave ready replies, not faltering for a moment or trying to parry them. Neither did he hesitate to agree with the one or the other where he perceived he was in the right. Sir James was not so searching in his examination as his merchant colleague. He tuned his harp to the many disagreeable things that had been said of the Bank of Bombay in Mr. Abrahams' papers and played his strings on them. But on the whole, it cannot be said that either he or Mr. Gladstone was able to get any very material admission from the witness on matters of policy or questions of fact. He courageously answered all their crucial queries with the alertness of an experienced financial dialectician, armed at all points, and a promptitude and presence of mind which would have elicited praise from the highest court of judicature in the realm.

THE PRESIDENCY BANKS.

The first most interesting and instructive series of answers was in reference to the relations of the Presidency Banks with the Government. We have already quoted from the Appendices all that was worth knowing. But if the reader desired to be fuller in his information and instruction he could not do better than carefully con the series of answers he gave to the Chairman in regard to this subject, *e.g.*, from 41 to 48. Take only the following question:

"Is it in your opinion desirable to encourage those loans?"

Here was the pregnant reply: "I think if the money market, upon which trade depends, is suffering from extreme stringency which can be alleviated by the simple process of unlocking a Government Treasury and lending some money on good security and with a certainty of repayment. It is *prime facie* a bad thing not to supply that medicine to the temporary complaint, but at the same time there are questions whether the Banks are strong enough to justify a very large increase in the amount of Government money placed with them. I do not attach very much importance to that. And then there is the much larger question how far a great money market like the Indian money market should rely on Government resources as distinct from what you may sum up as its own resources. My own feeling is that it would be well that, with discretion, the Government should apply a dose of this remedy occasionally; but there is very much to be said on both sides." Here, you have the *alpha* and *omega* of



the entire controversy. Sir James Begbie tried many a variant on this, but was unable to glean anything more than a casual platitude.

Next Mr. Abrahams vigorously laid low the ghost conjured by the more ardent but heedless and ill-informed critics, namely, that the witches at the India Office had been on set purpose boiling in secret their cauldron of high cash balances. The very comprehensive and exhaustive defence needs to be studied in the original text. It was a complete clincher to Messrs. Webb & Co. and others of that ilk. Only a "reasonable balance" is kept and that balance at present can never be less than 12 million pounds or 18 crore rupees.

ASSISTANCE TO OTHER BANKS.

Next, to the loose statement so often heard of late, that the Government were against making any advance at all, Mr. Abrahams made a telling answer by simply repeating the telegram of the Government of India to the Secretary of State which ran as follows: "While we are ready when money is required owing to quite exceptional market stringency to make advances to Presidency Banks, we have for five or six years past received no request for loans of this kind." The Chairman then put a pertinent question (No. 96) whether there were other Banks in India fit to receive State deposits. Here is the reply which should be noted by the unfavoured Banks: "I should only like to say that I have spoken about it with commercial men and others who have a great deal of knowledge of Indian conditions and most of them have thought that it would not be a good thing for the Government to lend in India direct to commercial firms. They have mostly thought it would be better to put money with the Banks and then let the Banks have the duty of exercising discrimination and have the responsibility. I dare say it may be worth inquiring from Indian witnesses whether among the Banks in India there may be some who would be suitable recipients of Government deposits. This is a point on which Indian experience ought to be sought." We shall have to wait for the unofficial Indian witnesses invited to express their opinion on the subject. But among the members themselves of the Commission there is the redoubtable Sir Shapurji Bharucha with fifty years' experience as a stockjobber and financial broker. We should be glad to see him go into the witness chair and give his



evidence on this all important point. Anyhow, Mr. Abrahams showed an open mind when he made the answer just quoted. That was in striking contrast to the reply he had received from the commercial men, Anglo-Indian mostly we presume, whom he had consulted. To us it seems exceedingly doubtful whether there exists strong Banks to whom the State can make available as loans some part of its cash balances as they do to the Presidency Banks. But there can be no doubt that in times of stringency leading to unnecessary panic, as is the case in Bombay at the present hour, when a strong Indian Bank enjoying public confidence is temporarily in need of a few lakhs to tide over a critical occasion, the Government would act wisely in offering the necessary relief, of course, on the deposit of Government securities.

AN INTOLERABLE BURDEN.

There was the affirmative monosyllable by Mr. Abrahams to question No. 104, which needs to be reproduced here: "The Government of India does a great deal of business which the Government of Great Britain would not touch." That question is exceedingly pertinent when the proposal of the State Bank comes to be practically considered. The sooner the Government of India is relieved of the business which does not properly fall within the functions of Government the better. The problems of Indian administration are indeed legion, full of complications to engross the whole time of the governing authorities. To add State banking, for which they are not so competent as trained financiers, is indeed an intolerable burden. Similarly, as to Council Bills in reference to which question 119 is very important. How guarded was the answer! "A very large degree of Government control and co-operation would be necessary."

Lord Faber put a catching question (No. 124) touching Budget Surplus:

"Your budget is far too much and it is apparently owing to this that you have these big balances."

Mr. Abrahams replied in the affirmative: "Yes, as a matter of fact no one regrets more than I when there are striking differences between budgets and actual results. I mean that it is unfortunate one cannot foresee the future, but, of course, the circumstances in India have been such that foresight was extremely difficult, if not impossible, for some years past. But as regards the disposal of this unexpected surplus, which was the main object of your question, if in a certain year one wants six millions for capital expenditure,—I take that as an illustration figure,—supposing that at the beginning of that year you



and that you have an unexpected balance of 4 millions from the previous year, I do think that you will agree, on turning over the matter, that there would be no great advantage in first of all spending that four millions on buying up and paying off four million pounds worth of India Stock and then, perhaps, a week afterwards,—I put an extreme case,—issuing six millions in India Stock. The neater and more economical way seems to be to issue 4 million pounds for capital purposes and borrow two million pounds."

This is a typical answer showing the candour of the witness and at the same time expressing unreservedly his deliberate opinion. Here is another important question put by Lord Faber (No. 114) with its characteristic reply:

"Will you tell us whether you think that in India there is scope to lend these great balances on gilt-edged securities? Can large balances be lent in India or would it be better to transfer them to London? If you can do it in India it would be better, but can you?"

The answer was as follows:—

"You raise many big questions. If you suggest the advantage of transferring balances largely from India to England because they can be better lent in England, then, I say, you must not overlook the possibility that the lending of the balances in India might be very useful at certain periods for Indian trade, and if the Government of India could help Indian trade in that way without any risk of impropriety it would be an excellent thing."

Who would deny the absolute correctness of the answer and its stern impartiality?

(X)

CAUSES OF RECENT MONETARY STRINGENCY AND OTHER COGNATE MATTERS.

As to monetary stringency, Mr. Abrahams was of opinion that in the first place pressure may come to India through causes which are not likely to be relieved by the sale of Council Bills: "One so often thinks that the sale of Council Bills is the way of relieving stringency in the Indian money market. So far as the stringency is due to great demands for the steady progressive export trade, I have no doubt that the common view is correct; but the stringency may be due to this kind of thing: A firm buys jute, for example, on borrowed money from the Bank of Bengal, or cotton on money borrowed from the Bank of Bombay, and is not able to pay back the loans

it has taken from the Bank until it has sold its finished article. Supposing that either the manufacturer is holding out for high prices or the purchaser in Japan or Argentine is rather slow in coming forward, the period over which such loans extend, that is to say, the period until the actual sale for export is made, may be prolonged to an unusual extent. That causes a certain amount of stringency, and so long as it goes on it is very difficult to see how it can be achieved by the sale of Council Bills, because no export bills are credited against the export until the export is actually arranged for. That is one reason against assuming, that when there is a stringency in India, it is likely to be relieved soon from London." Of course not. At present, there is a glut in the cloth trade, both in Bombay and Bengal, by reason of the abnormal quantity of piece-goods lying in the godowns of importers and middlemen, which are hypothecated to the Banks. Council Bills here, too, are out of the question. Only the offtake of the unsold quantity of goods can ease the middlemen and the importers who are both temporarily embarrassed. Again, it is not the export season, so that, as Mr. Abrahams has shrewdly pointed out, no exports are made against which Councils may be drawn. There is the third difficulty, namely, that money, loanable money, is just now scarce in London, while the Bank of England rate is $4\frac{1}{2}$ per cent. or more, which is certain to be maintained for the next three months at the least, during which the London Banks will have to finance for wheat from Canada, Argentine, and Russia, and cotton from New York and Egypt. Indeed, owing to an early crop Egyptian cotton is being exported freely, and necessarily gold against it is exported to that country. Lastly, the Calcutta Banks have to finance the jute crop which is sold exceedingly dear this season. Practically, high price means that you have to pay so many per cent. more for the article than the normal price. The excess means larger financing for which funds should be forthcoming. If not, the stringency is obvious.

The other point to which Mr. Abrahams referred was this: "Exchange Banks do a certain amount of business in the way of importing capital for banking purposes, but they do not do much, as I gather, of such business and the Presidency Banks are not allowed,—they have been asking for many years to be allowed,—to import capital to be used temporarily for banking purposes, the Secretary of State never having seen his way to grant the permission."

CAUSES OF STRINGENCY.

Let us now turn to the specific stringency in the spring of the current year. The question (No. 273) which was put to Mr. Abrahams in reference to it was: "Could you say that the stringency in Bombay (and elsewhere this spring may have been partially owing to the working of the Reserve Treasury system in India?" The answer was: "I suppose it was, but I would not say that, if I may express it, with any great enthusiasm, because the stringency of this year, as you see from the chart I have produced, was not appreciably greater than the stringency that has existed in many years when there has been so large an accumulation of money in the Government treasuries." Here was a flat contradiction of the statement of those who had been always laying the stringency at the door of the Reserve treasuries. With those treasuries flush with money stringency has occurred! Why so? Let those who have been making the allegation reply. Meanwhile, it is instructive to let the reader know the further question, prompted by the reply, which was put to Mr. Abrahams: "I did not mean that it was the only possible cause of stringency, but whether, in this particular instance, it may not have been the cause while there may have been other causes in other years?" To this the reply was: "I suppose it is clear that if there had been less monies in the Government treasuries, it is probable that there would have been rather less stringency, except that there is always the difficult question, how far the money that is locked up in the Government treasuries, that which is called Money Market money, or how far is the locking up of it, a cause of the demand for advances from money market resources." That was a neat thrust home to Mr. Gladstone, who thereupon further pursued his interrogation: "Would the first three months of 1913 have been a suitable occasion for lending money from the Treasury balances in India if any sort of different machinery from what there actually was had been in existence for doing it?" Mr. Abrahams replied: "I could not conceive a more suitable period. Supposing the policy is adopted the most suitable time is the one at which there is most money available in the Government treasuries in India as in the period that you mention." That reply was a finisher and the stringency matter interrogatories came to a natural end.

GOVERNMENT SECRECY.

Mr. Gillan then was most anxious to clear up the allegation so loudly made by the agitators about the Government manipulat-

ing Currency and Council drawings. It was natural that the Government of India should embrace the opportunity to place the matter before the public in a clear light. It is one of the errors of that authority in matters administrative that when unfounded allegations of the character are made, they button themselves in a suit of close reserve instead of promptly issuing a Press *communiqué* declaring their proper intentions. Part of the defence before the Commission has arisen from the fact of the secrecy with which the Government carries out its monetary transactions, that is to say, transactions which for political or economic expediency do not demand any secretiveness at all. It is much to be wished that in matters of currency and finance the Government in future will see its way to take the public interested into its confidence. There would be less agitation and less unfavourable criticism.

A CANDID STATEMENT.

Now as to Mr. Abrahams' reply to the allegations by the trading public about manipulations:

Let me be perfectly candid in the matter. You know that the whole Indian financial system is a very great and complicated and a difficult system, and very often on extremely short notice one is asked to give Parliament a justification of it in three lines, a very brief, lucid, correct summary. I think occasionally it has happened, and I do not think one need be ashamed of it, that when giving a summary of that sort one has not always put every fact in its right perspective. I think occasionally one has over-stated the importance of meeting trade, and has rather left in the back ground all the more important considerations of meeting the Government requirements and doing the best for India as a political community. Sometimes in an official publication the thing has been put in what is not ideally the right perspective. In such a matter the Secretary of State relies on officials. They have done their best, but under great pressure of time, have not always expressed the fact with the most complete and scientific precision that can be reached after long study and labour. I think there have been slight defects in the method of presentation, that is what it comes to.

Here is a candid introspection and it is much to be wished that great officers of State representing India in Parliament would use "scientific precision" in matters of finance which would not be misinterpreted and which would prevent hollow agitation later on. Anyhow, we repeat, it is partly owing to this fact and partly to the traditional policy of the bureaucracy to keep things unnecessarily secret which are no secret at all that the Government is ex



posed to hostile criticism. It is clearly the Government's own fault. Had that authority taken the commercial public into its early confidence and precisely explained its policy in reference to monetary stringency, and how far it can or cannot assist trade from Treasury balances, much of the subsequent agitation might have never been heard. In fact, we may venture to say that had the two Appendices now published been given wide publicity four months earlier there would not have been the slightest occasion to include within the scope of reference to the Commission either the question of lending large Cash Balances to the Presidency Banks or assisting the trade in times of monetary stringency or of Council Bills. The scope could have been easily narrowed down to the controversy touching Gold Standard Reserve and Gold Circulation. However, we may leave severely alone this academic discussion which Mr. Gillan raised and to which Mr. Abrahams gave a candid explanation. The atmosphere was cleared and Mr. Abrahams was able to meet the other cross-examining Goliaths in a refreshing manner as will be seen from what follows.

(XI)

AMPLE JUSTIFICATION OF THE POLICY REGARDING CASH BALANCES LAID DOWN BY THE INDIAN GOVERNMENT.

We have already observed that, though in his cross-examination of Mr. Abrahams, Sir James Begbie did his best to elicit material admissions, he was hardly successful. On such threadbare questions as a low Bank rate being beneficial to trade and the community generally, and others of a like character, which every Bank clerk might answer, there was, of course, an agreement of views. For that matter the questions might have been left alone. But Sir James seemed to have been a great deal hurt, if one could read between the lines, at the way in which the Bank of Bombay has been referred to in the copious correspondence which Mr. Abrahams submitted to the Commission and which has been published in the Appendices. He tried to draw out Mr. Abrahams on different topics, specially on loans at low rates of interest, but without creating any impression on his colleagues on the Commission. For instance, here is a typical question with a very typical reply. Sir James asked (No. 428):

"Do you regard loans to the Presidency Banks from the Government balances as an uncertain source and do you consider there is no

objection to largely increased deposits being given to the Banks from the Treasury balances because they are uncertain: I would like to ask you if you hold the same opinion and the same strong objection, no matter what the size of the Treasury balances may be?"

To which the reply was as follows:—

"Of course, if you do in one year a thing which you may not be able to do the next year, one perhaps may say you are wise to do it when you can, because you confer a certain benefit at that time, and another person may say it is better not to do it at all because you may raise, and have ultimately to disappoint, expectations. It is a matter really, if one may say so, almost of one's general judgment about things in general rather than a financial question."

The implied retort to the questioner here may be passed over with a silent smile. But Sir James Begbie had this bee of the loans in his bonnet. So he further questioned the astute Mr. Abrahams as follows: "Could not a point be mentioned or settled, and if the Treasury balance then exceeded that point, loans might be given? Might not something of that kind be done?" The reply was:

DANGERS OF GOVERNMENT ASSISTANCE.

"Personally, as I hope I have made clear, I am in no way obdurate about these matters; in fact, I see very great force in what you say. Still it remains true that, if the jute trade or the cotton trade, in one year were largely dependent on the Government balances, which happened to be very big through some fortunate accident, and went on, say, for two or three years, and then the Government balances, through no fault of Government, fell down, the jute trade and the cotton trade might be very much hampered through the sudden withdrawal. I merely give you that for what it is worth. I do not say it is a conclusive argument in favour of or against any particular policy, but it is a point to be considered, and that it is all I wish to put about it."

Here, without being dogmatic, Mr. Abrahams pointed out once more how dangerous it is for trade always to rely on the balances. When the Presidency Banks, and therefore the trade, get accustomed in some ways to depend on those balances, and when, owing to the exigencies of the State or owing to other causes, the balances are withdrawn, the trade makes a grievance and sends forth a prolonged wail on the hard-heartedness or unwise policy of the Government. So that, practically we are again brought back to the point, namely, that the sooner the trade accustoms itself not to rely at all on the Government balances and more on independent banking facilities and resources the better.



AN IMPORTANT DISTINCTION.

Sir James, still harping on the loans question, put another query (No. 430): "You draw a distinction between loans to help trade and loans to earn interest, but India Office balances have been deposited with Banks and lent to other Banks and discount companies, and these companies, as I understood, do help trade, and lend in order to earn interest." This was an important question, the crux of the loud complaint of the Presidency Banks and the European Chambers of Commerce in India. The answer of Mr. Abrahams is worth remembering:

The difference between us there is very great. If we were lending in India, we should be very anxious to consider the effect of the loans on the borrowers I mean not to interfere with their general method of business and not to raise expectations from them which we could not fulfil. As regards the borrowers from India Office balances we regard them with the utmost callousness. We do not care for those borrowers at all. We lend our money to a bank or to an approved borrower, and it is understood that he has got to deposit security, and that he has got to pay the money back at the right time and to pay his interest; there is between us, if I may use an old expression, merely the cash nexus. We want his interest, he wants our loan, and the relation is absolutely different from that between a more or less paternal Government in India and the trade of India.

"If that be the case," proceeded Sir James Begbie, "is there any reason why Government should not give loans in India for the sake of interest only"? Mr. Abrahams replied: "No, certainly not. I have drawn your attention to the fact that all this danger of interference with the trade and disappointment if one cannot lend in the fifth year after one has lent it in the four years, is rather serious in India, because the Government capital bulks so large in the comparatively small Indian money markets, whereas in England, if you lend one year and you do not lend another, it is so trivial that you do not by withdrawing your loan money interfere with any one to any appreciable extent. This is the distinction I put." That the distinction pointed out is real can hardly be gainsaid by the most ardent protagonist of the Presidency Banks and the Chambers. What may cause a mere ripple on the surface of the financial ocean of London trade and commerce causes here a veritable hurricane, because, as Mr. Abrahams properly said, the Indian monetary market is so tiny a minnow, compared to the colossal triton of London. Poor Sir James had therefore as a last resort to inquire



of Mr. Abrahams whether he cannot do something in the way of lending in India. "Yes," promptly replied the redoubtable Under-Secretary, "I think you might. I think if you wanted to do in India what we did some months ago,—I think we called seven or eight millions in the course of three months,—those figures are not exact but they are approximate,—you would cause a great deal of turmoil." So here was the Parthian shot and it is to be presumed the answer gave no crumb of comfort to the Goliath of the Presidency Banks. As if to emphasise the reply of Mr. Abrahams, the Chairman interposed: "I understand your view to be that, if you lent in India, and had occasion suddenly to call in the money, you might create a crisis?" "Yes," was the laconic answer. "But if you lent in England and had occasion suddenly to call in the money, the likelihood of your producing a crisis is much less?" "Yes" again. But the ex-Chancellor of the Exchequer deemed it right to push his interrogation to its logical conclusion. So he inquired: "In addition, you do not care if you do produce a crisis here, as it is not your business in the sense in which it would be your business if you produced a crisis in India?" Mr. Abrahams replied: "Yes, and as an illustration of how much we can call in without disturbing the market, perhaps when you look at the paper which Mr. Babcock is submitting to you, in which you will see our balances from day to day in the year 1912-13, you will note that between 28th September, 1912, and 6th January, 1913, we reduced our loans in the market by somewhere about eight millions." Is that possible and practical in India? We think not.

So far we may say the subject of Cash Balances and loans has now been exhausted. The chief representative of the Presidency Banks was not able to elicit anything materially in reference to this branch of the inquiry by the Commission. The evidence of Mr. Abrahams could not be said to have been shaken even by a hair's-breadth. He stood square to all the winds of cross-questions that were blown in his face. If we can speak with the utmost fairness, we should say that, as far as the question of Cash Balances was concerned, the case of the Indian Government was complete, while that of the Chambers was blown down like a house of cards. The former gave through Mr. Abrahams ample justification for the policy it practically pursued, and that with a single eye to see that the funds of the tax-payers were vigilantly safeguarded and those beneficially. Let us see

whether in the matter of the excessive sales of Council Bills in recent years the Government is able to make an equally gallant defence.

(XII)

THE WITNESSES EXAMINED—THEIR TRIANGULAR
CHARACTER—VALUABLE EVIDENCE OF AN
EX-GOVERNOR OF THE BANK OF ENGLAND.

Coming now to the witnesses, we prefer to give the first importance to one who may be said to be in no way interested in the prevailing triangular controversy on currency and finance. There are, without question, three parties, which have been pulling at each other from their respective "zones of interest" or "spheres of influence." There is the Indian Government with the Secretary of State whose ukase, after the manner of the autocrat, is final, though appealable to Parliament. That he should, under financial advice sometimes err on matters of Indian currency and finance, will not be denied. If he is himself not well versed in these matters he is ordinarily dependent on his broker, who, himself, can hardly be called a disinterested personage. In difficult matters, it is to be presumed, the Secretary of State for the time being consults the trained Treasury officers or even Chancellors and ex-Chancellors of the Exchequer. When, therefore, some of his actions are widely challenged, he has to make a bold stand in defence of his policy. Now, defence means a presentation of the strongest points which may carry conviction before a jury and holding back of points which are feeble and not likely to impress those to whose arbitrament they are submitted. So that it is not possible to have the exposition of the two sides of the shield. That is the position at present of the Secretary of State, as representing the Government of India, before the Royal Commission. Next there are those who have challenged his policy. These are divided into two groups. There are some who favour particular parts of his policy and action, and there are those who wholly disapprove of them. Each tries to put forward the case from his point of view, in other words, from the point of view which is of the greatest interest to him. They differ among themselves and try to contradict each other. Thus it is that the witnesses now before the Commission are all interested in carrying on a triangular controversy. Again, it can hardly be said that the composition of the



Commission is satisfactory. There are on it members with very pronounced views, some on the side of the Secretary of State and some against him. Those who have nothing to do with the controversy may be counted on one's fingers. In a grave matter of investigation of this character we should prefer a Commission consisting of persons who are absolutely disinterested and free from the taint of any bias or prejudice. Such men are able to judge of the statements put before them with an open mind and utmost fairness. Their cross-examination would not be inspired, as we plainly discern in the present case, by the particular view of foregone conclusions, they respectively held or entertained, so that even their cross-examination as conducted must be held to be to a certain extent tinged with the bias or prejudice of each individual Commissioner. But we have to take Royal Commissioners as we find them. They are neither infallible nor have they any special features about them. Neither can they inspire such confidence as the judgment or decree of a stern Rhadamanthus sitting on the Bench, unmoved by the rhetoric of the counsel and unimpressed by their sophistries. That personage would weigh exactly in the balance how far the evidence of each individual witness should be believed or disbelieved.

EX-GOVERNOR OF BANK OF ENGLAND.

So far then as the witnesses already examined are concerned, we give preference to Mr. Clayton Cole, an ex-Governor of the Bank of England, because we believe that he was the only one outside the pale of the interested controversialists. He gave evidence on behalf of the Bank of England, which was invited to enlighten the Commissioners on the larger problem they have been called to investigate and report upon. Mr. Cole was, therefore, a perfectly disinterested witness. He gave replies to questions from his own experience of his connection with the former governorship of the Bank of England. A Governor of that Bank is, it is admitted on all hands, a man of great financial reputation and experience, and, therefore, a high authority competent to pass an opinion. His replies were mostly founded on his own experience and he candidly declined to give any categorical replies to queries which were not within his knowledge or experience. Professor Keynes heckled him, as an economic pedagogue, but beyond eliciting admissions on general points he was able to glean nothing from him. Sir Shapurji followed in the wake of Mr. Keynes not as a pedagogue but as a member of the so-called Bombay "Stock

Exchange," and as a broker, whose daily avocation is to finance loans for all and sundry. To certain other questions Mr. Cole reserved his answer, observing that he could only answer them after consulting those whose chosen representative he was. But so far as his main evidence goes, we are glad to notice, it was most illuminating and instructive. He had oftener than not to shatter the idols of an ill-informed money market. For instance, in no part of his evidence was he more confident and emphatic than in reference to the Gold Standard Reserve fund. He stoutly maintained against all questioners that if the sole and exclusive object of that Reserve was to keep Indian exchange steady, specially in critical times such as those we had had in 1907-8, when New York was also the centre of a great financial storm, then, he boldly opined that a larger part of that reserve should be decidedly kept in London. That will give, we believe, a great wrench to those who have all along been clamouring in favour of its retention wholly in India under the fallacious impression that it was for the good of India that Indian gold should accumulate here.

THE DYNAMICS OF GOLD.

Mr. Cole lucidly explained the dynamics of gold, pointed out how London was the only centre for the outflow and inflow of gold, and that it was worse than useless to have the greater part of the reserve in India or in securities. It must be in gold. For they would find at critical junctures that it would defeat the very object for which it was established if the gold were not ready at hand to meet the emergency. Asked by the Chairman to state his reason, Mr. Cole replied:

The original intention of the Gold Standard Reserve, I believe, was that the whole of it should be held in gold. That I do not think is necessary when you get beyond a certain amount. The question is what amount is desirable? Personally I should say that five millions would not be sufficient and it ought to be ten millions, unless the Indian Government clearly see their way in an emergency to use the gold that they had in the Currency Reserve. What I am looking at is this. When in 1908 trade was adverse to India the Indian Government had to sell out something over seven millions of their Gold Standard Reserve securities, and a similar contingency must be provided against in buying amount of gold that would hold here, because you will probably come on it later. If the storm centre of financial difficulty, which fortunately in that year was at New York, had been in England, the Indian Government might not have been able to sell their sterling remittances at all.



Those who have cried aloud for the reserve being wholly in India could have hardly been aware of this signal financial fact which Mr. Cole, as the Governor of the Bank of England at the time, was able to put with confidence before the Commissioners. So much for want of exact information and ignorant criticism, which, by the light of this one statement alone, now appears to be absolutely worthless. "Of course," said Mr. Cole, "they could have sold them at a price—I mean a give way price. The holding merely of sterling securities is not only a danger to the Indian currency position, but to the market also. Fortunately in 1908 the storm centre was not in London and the difficulty was got over, but when the Government is making its regulations for its currency, they ought to be made in such a way to my mind that they provide for all eventualities". India in one form or another should hold in actual gold the largest sum she may need in any year. That was Mr. Cole's contention and he supplemented his previous answer by observing further: "Provided what I call a reasonable sum is held, and as the gold standard costs her nothing, I think the rest can be reasonably held in securities. But I tell you from my point of view, or at least the Bank point of view, that gold should be held in this country and not in India." To a further question of the Chairman, Mr. Cole replied that all the gold on this account held in London is not taken into account on any market calculations. "It never appears in the Bank of England account as published, and it is quite incorrect to say that the market here takes it into any account at all."

ANOTHER ILLUSION DISPELLED.

Again Mr. Cole dispelled another incorrect statement which has found currency among some of the agitators, one of whom said as witness to the Commission, that what was needed in a time of crisis was not actual gold but what is called "bankers' money" and that therefore the securities held against the gold reserve fulfilled that purpose quite as well as gold. The Chairman queried Mr. Cole on the subject, to which the reply was "certainly not in a time of crisis." It rests ultimately in a time of crisis on the power of the Bank of England to advance money to buyers to pay for the securities. In other words, as a last resort, it rests on the gold reserve of the Bank of England. As the Chairman finally put it, in a time of crisis India should not be a drain upon the English money market but "carry its own burden". That



can only be done when a certain amount of the Gold Standard Reserve is held in England alone in gold. The Indian crisis could only be averted under that condition.

LOANS BY THE SECRETARY OF STATE.

Mr. Cole's opinion on the practice of lending Indian monies by the Secretary of State in London was wholly unfavourable. He condemned it altogether from the point of view of the Bank of England. That Bank is disadvantaged in keeping its discount rate point as the loans are given out by the broker of the Secretary of State at a lower rate, being what is called the rate of money at call. It weakens the control of the Bank of England over the London money market, which really weakens the market all round. And what weakens that market must ultimately have its reactionary influence on matters financial in India. Similarly, Mr. Cole has nothing but wholesale condemnation for the practice of advancing monies by the Secretary of State on securities at par when as a matter of fact they are quoted in the open market below par. Losses are liable. In reality losses in the past have been incurred by such incautious practices for which the India Office broker is responsible. On the whole his evidence about lending Indian monies by the Secretary of State was condemnatory. It is to be hoped that it will abundantly chasten and correct some of the mischievous practices in vogue at the India Office and dispel the illusions under which the men of commerce in India have been labouring for want of exact information.

(XIII.)

SOME ANGLO-INDIAN ILLUSIONS DISPELLED BY MR. COLE —CONDEMNATION OF THE WAY OF LENDING MONIES AT THE INDIA OFFICE.

If Mr. Clayton Cole was firm and emphatic in his opinion on the absolute expediency, in India's own best interests, of holding from seven to eight millions of the Gold Standard Reserve in gold only, not gold securities, he was equally firm and emphatic in his opinion, but quite in a contrary direction, on the method and manner of the India Office of lending cash balances to Banks and firms in London. Asked by the Chairman whether he thought "the present system by which a Government Department, through the Secretary of State, lends money to the

London money market, is open to objection in principle," the answer was as follows: "Yes, I do, that is to say, I think it is objectionable to have large sums of money raised in London which are, so to speak, not in any sense required for English trade." In this answer we again discern another delusion of the commercial men here knocked down. It was vociferously alleged that the trade of London was being stimulated by the resources of India, while they were starved! But it was nothing of the kind. Mr. Clayton Cole explained himself further in this wise:

"The loans in the market of the Indian Government are very large. I had the figures taken out the other day at the bank, and I find that the amount they are lending now through their broker is approximately eleven millions. That is money which in the London market you can hardly describe as good money because it is liable to be withdrawn for reasons which have nothing to do with what I call the London market. The India Office lend the money at the best rate they can get, quite independent of what I call the considerations affecting the London market proper; therefore, that money may be lent, and is at times lent in a way which is disadvantageous certainly to the Bank of England which has to look after the gold reserve of this country."

While the Anglo-Indian mercantile community alleged that India was disadvantaged, the ex-Governor of the Bank of England declared that it was England herself that was greatly disadvantaged, because the entire policy which regulates the inflow and outflow of gold was mischievously disturbed. When we bear in mind that London has internationalised the market of gold, and when India herself has to depend eventually on that international market practically to keep up the stability of the Gold Standard, a moment's reflection will tell us that the system in vogue at the India Office is suicidal to India's own larger interests.

MR. COLE'S REVELATION.

Our Anglo-Indian merchants here seem to have been blind to this most pertinent fact brought by Mr. Cole to the notice of the Commission. It was in its nature a revelation and we will allow Mr. Cole to state it in his own words: "The Indian loans are made by the broker and he lends at the best rate he can get, and that rate at times is, I should say, below what it is desirable in the interests of maintaining the discount rate in London that it should be lent at. We had a case quite recently in which India Office was lending money

at rates which is at call, and at times—I do not say it often happens, it does at times—acting quite against the central institution which is responsible for the maintenance of rates.” In this way, as the Chairman put it, “it weakens the control of the Bank of England.” That control, again, “is the only buttress for the Gold Reserve in England.” But here the question naturally arises, why should India care for the Bank of England? Surely, the Bank can steer its own course. That is the way many Indians have thought and think. But, we believe, the reply which Mr. Cole made to the following question will convince Indians why it is that the Bank of England is indirectly an institution for the greatest advantage of India; since India has established a Gold Standard Reserve. The Chairman’s question ran as follows:—“In so working against English interests do you think it is incidentally disadvantageous to India or is the profit all on the side of India and the loss all on the side of England?” Mr. Cole replied: “That depends on how the money is raised. If you raise the money by bills, and the Indian Government has had out some five millions of bills, I should think it was paying a higher rate for the discount of those bills than it was getting for the money. If that balance is accumulated here merely out of Council drawings, I am not able to say whether the rate that they get for their money is or is not higher than what they paid for it.”

A CENSURE ON INDIA OFFICE METHODS.

The next point turned on the nature of the securities on which the India Office lent in London. The Chairman observed that the securities were Indian debentures, Indian bonds, and Guaranteed Railway Debentures. Also Treasury Bills, Exchequer Bills, Exchequer bonds, India Sterling bills, Metropolitan Water Board Bills and London Council Bills. These are accepted at their market value, but Metropolitan consolidated stocks, Corporation of London debentures and the bonds and bills of Colonial Governments and others were accepted at 5 per cent. below their market value. Mr. Cole said: “I should say that to take a security at par value when it may be 10 per cent. below par is bad finance.” We would remark that such finance is on a par with that of some of the new Banks here which lend money to the hilt at a margin for which no sound banker or financier would care but would deem it exceedingly perilous. For a State like the Government of India to lend money on such a



questionable principle is grievous, and we daresay the practice will be discontinued by the Secretary of State without waiting for the recommendation of the Commission. Mr. Cole remarked that "we at the Bank have never accepted the Colonial securities and I imagine that the Colonial securities have only been put in because the India Office broker finds a difficulty in obtaining other securities. In so far as the Indian Government are taking those securities they are departing from the principle that we have always held at the Bank, that those should be confined principally, though not entirely, to British Government securities. Therefore in that respect I should say that the India Office in this action are working against the interests of the British Government." That is a severe censure on India Office lending.

INDIAN BORROWINGS.

We now turn to the question whether Indian borrowings have been overmuch? The Chairman having queried, Mr. Cole the last answered as follows: "Our answer is this: India has probably not borrowed too much, but the fact that it is known that she will continue to borrow annually does naturally tend to keep down the quotations for her loans. I would like to add that, if India at any time requires money on a large scale, she would probably have to issue a loan with a fixed date for redemption." Mr. Cole further explained that what he meant by a loan on a large scale was, say, something like 20 to 30 millions. "The big investment world now, which includes the bankers, are undoubtedly giving a preference to loans with a fixed date for redemption. I would go so far as to say that if this country unfortunately were at war and we wanted a large sum of money I think you would have to alter the system of borrowing by this country." This led up to the question whether India's credit had declined. "I think not," replied Mr. Cole, "if you compare the quotations for her loans with their trustee investments which have no fixed date for redemption, but Indian securities have gone down. All the Colonial loans have fixed dates for redemption, but Indian securities have gone down more than Colonial securities and I think that is the reason of it."

As to the silver purchases the Chairman said it was suggested that the Government of India might avoid some of the difficulties they have experienced in the past if they purchased silver



fairly regularly. Mr. Cole was of opinion that the Government knew perfectly well that they will require silver and therefore "having regard to what I call the ordinary prudence of merchants they should not wait until they are put into the hole." That, in fact, was a complete condemnation from the common-sense point of view. It was telling the Commission that the India Office should never have allowed itself to be so situated as to be "put in a hole" by the silver cornering firms. So far the accusation brought against the India Office stands fast.

THE PROPOSED STATE BANK.

Lastly, we may refer to the opinion expressed by Mr. Cole on the proposed State Bank. He observed there was a difference between a Central Bank pure and simple and an official State Bank. As to a mere Central Bank, the Directors of the Bank of England were divided in their opinion. Mr. Hambro as a strong advocate of it, while others thought there was no necessity. Mr. Cole thought that on this point "you will not get a unanimity of opinion among 26 people." As to a State Bank in the strict sense of the term the opinion may be quoted in Mr. Cole's own words:

"A State Bank practically would be what you have got now, that is to say, you have a department of the State in which the State would be the shareholder and that would run the finances of India as it does now. The whole object of a Central Bank would be, to my mind, to take the practical financial control out of the hands of the Government and make the Bank the Bank of India instead of what is the position now. I think all the evidence, so far as I am aware, makes out that the Government are the principal bankers in India. I can see that a Central Bank which is going to take the control out of the hands of the Government might be a very desirable thing, but at the same time I do not quite understand how in India, which is a continent, and not a country like this is a country, you are going to have a Bank so established that it may make a good return on its capital. This has been a question before the Indian world since the Fowler Committee, and I gather the opinion over there is not yet ripe for it, but without my knowing the view on the other side I personally am not prepared to give what I call a decided opinion upon it. To argue from India to England is arguing upon two things which are not quite alike. Here in England we have got a Central Bank which performs functions which it seems to me could not be performed by a Central Bank domiciled in one of the Presidency towns, Calcutta, Bombay or Madras, where it would be the main Bank."

That indeed is an opinion which we have always entertained since Mr. Hambro first submitted his paper to the Fowler Com-



mittee. At this very hour they are greatly divided on the proposal of the Glass Currency Bill for a State Bank in the United States,—a country double in area to India but with half her population, which contemplates twelve different Federal Banks with a Federal Reserve Board dominating all at New York or Washington. But the Chairman pursued his investigation a little further by inquiring “whether it would likely be better done and be less open to criticism if it were not in the hands of Government officials whose special training for the purpose must necessarily be somewhat limited, and if it were placed instead in the hands of banking experts?” Mr. Cole’s reply was trenchant: “If you could get them. I think probably it would be better run, but, as I say, I have no definite knowledge. The people who have been out in India tell me there is a practical difficulty of getting a sufficiently permanent body of competent men to run a Bank, entirely apart from what I would call Government interference. In theory I think everybody would say it is better that the banking business should be done apart from the Government, but when you talk of a Bank you have got to get the capital for it. You have got your shareholders, and you have to get your board of management, and I am not prepared to say one way or the other that that is possible in India, at the present moment.” Having regard to the kind of fluctuating character of Anglo-Indian merchants on the board of Presidency Banks as much as the competence of the Indian directorate to run them on right and safe lines, he would be a bold personage to answer categorically the doubts entertained by Mr. Cole of a Central Bank having a thoroughly competent and trained board, apart from their disinterestedness in managing its affairs, that is to say, management from a purely public point of view and that point alone.

As to a gold mint Mr. Cole opined that so long as sovereigns are taken for the currency, local minting seems unnecessary. “A mint, *qua* mint,” observed Mr. Cole, “cannot increase the circulation of gold except very temporarily. It might very temporarily increase in this sense that it might supply a deficiency of coin if it could turn out that coin more quickly than it could get it, say, from this country, but *qua* mint a mint cannot increase or decrease the circulation of gold.” But on this subject it would be well to notice what other witnesses have said or might yet say.

On the whole Mr. Cole's evidence, we repeat, was most refreshing, illuminating and instructive. It was purely from the point of view of a disinterested banker of the highest experience who spoke with all the authority of an ex-Governor of the Bank of England—a bank which is acknowledged to be the Bank that governs the finances of the entire civilised world.

(XIV)

MR. WEBB—OUR CURRENCY ATHANASIUS AND THE
STRONGEST ACCUSER OF THE INDIAN GOVERNMENT.

After Mr. Lionel Abrahams, we should say the most strenuous, lively, though not always consistent, witness during the first session of the Currency Commission was the Hon. Mr. Montagu de P. Webb. If Mr. Abrahams was the Goliath of the India Office, at any rate, his trained mind and his armed equipment, *cap-a-pie*, were such as to enable him to stand to his guns with unlimited courage and unshaken confidence. The true sterling mettle of the witness was transparent. We regret to have to say that Mr. Webb was neither a Goliath nor a David. Carefully going over his exhaustive evidence, which he braved with patience, but not with any deep commercial or financial sagacity, we have come to the conclusion that he was before the Commission as a kind of half-erudite, half-experienced Athanasius. That world-renowned theologian's attitude was to stand fast by his stern dogmas against the whole world. If he bravely stood face to face with the theological world of his own time, it was because of the unshaken confidence in his own conviction wrought by a mature study of the scriptural controversies, animated and erudite, of his days. Athanasius versus Mundum was indeed a sight for the gods to behold. But our Karachi Athanasius, though he attitudinised before the Commission as a financial warrior off his own bat (if we may be permitted a somewhat mixed metaphor), we are reluctantly constrained to say, was neither fully equipped nor fully competent to break his lance against the trained hosts whom he opposed. It is to be feared he was unequal to the task he had taken upon himself in and out of the Commission to discharge. We have read his many disquisitions with which he has overwhelmed us these last eighteen months and more, as the wanton



street boy does with his paper-pellets of sorts. Anyhow whether we agreed with his *ipse dixit* on currency or whether we disagreed from them, we greatly admire his pertinacity, his enthusiastic confidence in himself, and, above all, his disinterestedness. He took up the role of the leading agitator against all the alleged enormities and iniquities and what not of the Government of India and the Secretary of State.

WHAT WE OWE TO MR. WEBB.

In carrying on that agitation, almost single-handed, it seems he had not taken care to go fully to the fountain sources of official information, so far as they were available. His researches were neither wide nor far-reaching. In short, Mr. Webb suffered from what might be called half-knowledge or imperfect information, combined with his own sanguine confidence that all he was inditing in the shape of books, pamphlets and leaflets was a new evangel, a new gospel which had only to be accepted in order to bring about a new financial creed at the seat of the central authority, and revolutionise the obsolete mechanism of that entity. Bold was his task and taken, we frankly admit, with all the fire, the enthusiasm, and the zeal of an apostle. Anyhow, whatever his opponents may say, and however Sir Shapurji Bharucha may talk of the way in which he dished, in his customary bull-dog manner, this new apostle who had dared challenge the highest authority in the land, credit must be given to him that it was his agitation alone in the first instance which eventually led to the appointment of the Commission. The question of the shady silver purchases by influential monopolists of that metal in London, of the supposed enormous cash balances lent out to a legion of favoured houses in the financial line and Banks, of the reprehensible practice of selling Council Bills in large excess of the requirements of the Government, whatever specious official justification of it there may be, and lastly, the retention of as much gold as practicable in India in the interests of the country,—all the questions which he publicly raised with such exemplary energy and perseverance, were acknowledged exceedingly relevant. In independent and disinterested circles of commercial opinion, though only heard loud whispers. There was something “rotten” in their management,—that was the substance of those whispers. Of course, Mr. Webb on many points had insufficiently informed himself and it is not surprising, therefore, that he had to make a number of admissions on matters of fact.

Little had he thought that those against whom he had raised many an imputation, recklessly, of course, would rise in judgment against and overwhelm him with the weight of the facts submitted to the Commission. But if Mr. Webb, in reality, has now been practically vanquished on many a point, though he still adheres to some of his confirmed *ipse dixits*, we have to remind the reader that it is principally to him alone that we owe what may be called the clearing of the smoky financial atmosphere. So far he has rendered a distinct service to the public which ought to be remembered with gratitude.

SIR SHAPURJI AND THE BURDEN OF TAXATION.

We have not the slightest doubt that had Mr. Webb been at pains to ferret all the information available he would have made a more creditable stand than he did. Above all, it has also to be remembered that, if some of those who have found a seat on the Commission to-day are triumphant at their cross-examination of that redoubtable agitator, and lustily crow over it, it is entirely owing to Mr. Webb. He forced the Commission on the Government. That is a fact which not even Sir Shapurji, his strongest opponent in this complicated controversy, would dare deny.

Another matter which has suggested itself to us on reading Mr. Webb's evidence demands notice. It should be remembered that the "sacrosanct" position, to use the favourite word of Sir Shapurji at the proceedings, which the individual members of the Commission occupied gave them an opportunity to air their own individual hobbies, financial and others, with all the authority of the pedagogue or the dominie. Some of them fancied they were so many Bastables or Marshalls or Nicholsons or Taussigs themselves! In short, these ephemeridæ posed as the Sir Oracles of the hour and indulged in their oracular pastime. How these might have been pilloried themselves had they been cross-examined by the distinguished economists just mentioned need not be said. None was so oracular as Sir Shapurji, whose so-called economics are well-known to all India, never mind his miracles at stock-jobbing and underwriting. Mere success in business finance does not necessarily signify deep study of the first principles of public finance and economics, provincial or international. Mr. Webb had in his evidence-in-chief referred to the burden of taxation borne by poor India. That gave the opportunity to Sir Shapurji to air his thirty years' heresy,—about the non-poverty of India,—a controversy which he futilely carried

on in the columns of the "Bombay Gazette" against our venerable G. O. M., Mr. Dadabhai Naoroji. That controversy is not dead yet. It is alive and kicking, however the official apologists, the latest of whom is Sir Theodore Morrison, may try to mislead the British public. The question of a people being heavily or lightly taxed does not depend purely on the quantity of tax a State levies on its people. The heavier or lighter character of the burden of taxation entirely depends on the *ability* of the taxpayers to bear it. What may be that ability has been a moot question, as far as the Indian population is concerned for the last forty years and upwards. The governing authorities have times out of number been appealed to, to grant an open investigation of a thoroughly Rhadamanthine character in order to set it at rest once for all. The only way to demonstrate the actual *ability* of the Indian population is to find out its annual income. What may be that income? Sir Evelyn Baring (Lord Cromer) caused a rough estimate to be made, through the distinguished Sir David Barbour, which pointed to Rs. 27 per head, while Mr. Dadabhai contended it was only Rs. 20. But later on Lord Curzon gave us an estimate of Rs. 30. The public has had no confidence in the one estimate or the other because they were all made in a hole-and-corner fashion. The public has never been informed of the actual basis and principle on which the annual income has been computed. But let us take the official estimate as given by Lord Curzon. Then let us also take the unverified official estimates of the burden of taxation which, including land revenue, has been given at 3s. 8-7d. at page 6 of the East India Accounts and Estimates for 1913-14, presented only the other day to Parliament. The burden would come to 9 per cent. of the income. It is for economists to pronounce whether for an income of £2, the burden of 3s. 8d. is not overmuch. Can a family of four live on the balance each of Rs. 27 after paying Government dues? But without further enlarging on this extremely difficult question what we have to urge here is, that the Chairman of the Commission should exercise his judgment and discretion in allowing his colleagues to travel or wander away into controversies on matters which are absolutely beyond the scope of reference, and on which opinions are strongly divided.

THE MORAL OF IT.

Coming back to Mr. Webb, we repeat, he was not able to make out a strong case on most of the points on which he



had based his agitation. Of course, he firmly maintained his own beliefs and dogmas, but it is to be feared they are not convincing. He has been assailed by clever "experts" from all sides. He had to make many admissions and as far as Council Bills and Cash Balances are concerned he could not stand to his own guns. It would be tedious to recount all other evidence recorded. But we shall refer to some striking pronouncements which Mr. Webb made, and also to what he had to say at the close of his evidence in his own self-defence against some of the personal heckling to which he was submitted. The moral of it all is that when you are to fight powerful authorities, you must be fully prepared to stand by your guns. Then only can you bring the authorities down some rungs of the ladder and make them alive to their errors. The greatest sin of every bureaucracy in the world is its claim to infallibility,—infallibility, worse than that claimed from time to time by the Vatican.

(XV.)

MR. WEBB'S CHANGE OF OPINION AS TO SILVER AND GOLD.

One of the earliest points on which Mr. Webb strenuously, and we think rightly, adhered to his opinion, was the extreme caution, rather extreme over-caution with which the annual budget was framed,—a nervousness of the Finance Minister about a "gamble in rain" or any other plausible pretext which might sophistically be called a "gamble." It enabled him at the close of the year, when the so-called "revised estimates" were submitted to the public, to flourish a big surplus! This is a financial trick the hollowness of which has been exposed times out of number. Under this pretext of over-caution budgets have been framed to show deficits which eventually have disclosed large surpluses! We can only characterise it as jugglery in finance. Finance Ministers in India are nothing but financial jugglers more or less. They have all moved in a vicious circle from the days of Sir John Strachey and Sir Evelyn Baring to those of Sir Edward Law and Sir Guy Fleetwood Wilson. Prior to 1900, the wail every year was either low exchange, or precarious opium receipts, or famine. Sometimes adventurous expeditions for nothing in particular on the frontiers came as a godsend to excuse deficits. Opium made or unmade surpluses according to the exigencies of the financial witches at headquarters. As to low exchange, there was a "prolonged



wail," but it lost whatever force, artificial or natural, it had, when the mints were closed and the gold standard reserve established. Thereafter, they took up this new cry of abundant or scarce harvests which annually depend on the monsoon. But the monsoon is always with us. And so, too, rich or poor harvests. Years of experience could easily suggest how far a Finance Minister should take account of the one or the other in framing his annual budget. But they must always have up their sleeves a kind of false divinity whom they can make to dance just as they deemed it expedient to show a surplus or a deficit. At present "gamble in rain" is the *deus ex machina*. Practically, we owe it to the genius of Sir Guy Wilson for that phrase, which is now "classic," in official finance, and so loosely bandied about by apologists in the Press. The official excuse is ingenious but hardly ingenuous. It is therefore to be hoped that the Commission will recommend that Finance Ministers need not be so nervous about harvests and stake their budget all on agricultural prosperity, though we do not deny that that prosperity favours revenue. We think that, so far, Mr. Webb has done valuable service in exposing this hollow plea of over-caution on which the Chairman, too, unnecessarily harped a great deal.

COUNCIL BILLS.

Coming to Council Bills, Mr. Webb was right so far as he contended that there has been in recent years a great excess beyond the annual requirements of the Secretary of State for Home Charges. There is not a scintilla of doubt about it. It has been admitted by the Goliaths of the India Office and has not been challenged by any Commissioner. To go on blindly selling Council Bills beyond the amounts annually budgetted for is reprehensible. The apology was too frequently made for it by the Chairman that the excess beyond requirements was in no way harmful to India, because, if at some other time monies were not forthcoming, the Secretary of State would be embarrassed. But is it not harmful to have extra taxation beyond the need of Government? You call it when realised a "surplus" which in reality is a misnomer. So, too, it is harmful to have a plethora of Council Bills, increase your cash balances, then send about the official broker among scores of bankers and firms to lend them for a time at any rate of interest. Monies for railway or irrigation capital ought never to come out of Council Bills. Nor, for that matter, for any other purpose. At this time of the



day it is superfluous to refer to the origin of the Council Bills, how they began to come into vogue, and how my "Lords of the Treasury" in 1879 were invited to advise the Secretary of State, and what sound opinion they gave. Council Bills were certainly an excellent method of remittance of the Home Charges by the Government of India to the Secretary of State. But they were devised for no other purpose. Their object was strictly defined, and, inasmuch as it was convenient to the importer of Indian produce to sell his gold to the Secretary of State, and it was convenient for the Indian Government to pay his drafts here in rupees, the method was approved of. But of late years the practice has been grossly abused. It may be, as revealed by the evidence recorded by the Commission, that sometimes the Secretary of State was pinched awhile and found it necessary to sell Council Bills a little in excess. But what was exceptional ought not to be allowed to glide into regular usage.

AN UNPRACTICAL SUGGESTION.

That was the evil against which Mr. Webb contended and contended rightly. But it is to be feared, he was hardly practical when he suggested to the Commission that the India Office should fix a plate on its door and invite all and sundry to buy the Secretary of State's Council Bills at any time at the price fixed by him. That price should swerve but lightly from the standard of 16d. It may be at the highest $16 \frac{1}{32}$ and at the lowest $15 \frac{31}{32}$. Questioned whether buyers would invariably be found to buy the bills, Mr. Webb answered in the affirmative. Pressed to give a definitely deliberate opinion, he stoutly maintained that it was perfectly practicable. Why? Because he thought they *always* wanted to remit monies to India, while the Secretary of State was the only monopolist vendor of the bills. He could corner all, but the buyers could not corner him. That was his fixed conviction. We are afraid that in practice the method would break down within three months of its institution. What is wanted is a correction of the abuse of the practice and no more. It is absurd to say that because trade wants double the amount of Councils the Secretary of State should sell freely. We emphatically say "No." It is a mere accident that bills have to be sold in this fashion. There is nowhere else such a practice. The State in India performs a distinct function, and it is an accident only that it has partly to do financing for want of proper financing organisation. That, however, is no reason to allow the

Secretary of State to sell in a single year for Home Charges Bills which actually may come to about two years' requirements or a little less. Such finance must be condemned *in toto*.

It is superfluous to go over once more the ground so excellently traversed by Mr. Abrahams and Mr. Clayton Cole as to Cash Balances and lending of monies. That controversy may now be set at rest. It is like a dead horse and need not be flogged any more. As to the State Bank, there is, of course, a wide difference of opinion and we have no inclination to say aught more on the subject. We repeat that criticism would be more opportune when the Commission has made its report or when the Government of India has published its own skeleton schemes.

MR. WEBB'S EXPLANATIONS.

Mr. Webb, at the close of his evidence, wished to submit to the Commission one or two matters by way of supplement to his answers. He said: "Firstly, with regard to the questions put to me by Sir Shapurji, on the subject of my opinion now being different from, in fact diametrically opposite to, what they were 15 or 20 years ago. Several critics have drawn my attention to the fact and I should like to explain to the Commission the reason why I advocate a freer use of gold rather than a freer use of silver." At this stage we may state for the information of the general reader that Mr. Webb was undoubtedly a pronounced opponent of the closure of the mint. He condemned it wholesale and continued to do so till 1906 or 1907 when, perhaps, convinced of the futility of his previous convictions, he began strongly to advocate a gold currency. "Fifteen or twenty years ago," Mr. Webb proceeded, "prices all over the world were diminishing; prices were going down, and money was appreciating in value. The construction which I put upon that was that there was not sufficient metallic money in the world to go round, and therefore, it was desirable to add to the metallic money available. Therefore, in the case of India, I advocated the further coinage and use of silver money. But since then the position has been entirely reversed, and the output of gold has become so enormous that to that gigantic output I attribute the fact that prices all over the world are rapidly rising, which I regard as an indication that the metallic basis, gold, is more than adequate for current requirements. In those circumstances I think to add more silver to an already abundant supply of gold money is a very grave blunder, and that it is calculated to produce very curious economic crises



all over the world, owing to well-to-do people being tempted to over-trading and over-speculation while the poor population languish on the verge of starvation. For these reasons I strongly protest against the coinage of further silver money where it can be avoided and for these reasons I advocate the further use of gold. Then, with regard to hoarding in India, I should like to correct, if I may, mis-impressions which exist. In the first place, a very large portion of the population—over 90 per cent.—are illiterate, and the Commission will easily see the difficulties of advocating the use of cheques and banking and paper currency amongst a population 95 per cent. of whom are unable to read or write." These are the two reasons which, Mr. Webb said, have prompted him to alter his former opinion. Of course, every one is at liberty to entertain an opinion different from what he held before, if he is convinced that he was previously wrong. But convincing oneself as to the wrongness of the former view and the correctness of the present is one thing; to convince others is another thing. Others, in spite of the reasons alleged, may declare that they were not sufficiently strong or demonstrable. This part of the subject, we fear, belongs to the sphere of philosophy and not practical finance. We are quite willing to admit, indeed we take him at his word, that what Mr. Webb urged in his self-defence, by reason of the taunt hurled at him for his apostacy by Sir Shapurji, is true. But how may that defence strike those whom he wants to persuade and believe that his present conviction is the right one? Opinions will certainly differ on this very delicate matter.

THE USE OF GOLD.

What we are concerned here is to know whether the statements made by Mr. Webb, in his apologia before the Commission, can bear the searchlight of a critical expert examination. Is it not the case that gold production since the Middle Ages has ebbed and flowed? Are we unaware of the effects of the new gold in America soon after its discovery by Columbus? Are we not acquainted with its economic effects on Europe? There is a mass of literature on the subject which he who runs may read in great public libraries. But let that pass. Let us come to recent times, "within the memory of men still living." What happened in Europe on the discovery of Australian gold, say, in 1850, and what were the effects awhile of that gold in England and the Continent? In 1879, there appeared in the "Edinburgh



Review" an exceedingly able article on gold, in which the writer, who was thoroughly conversant with the movements of gold and the demoralisation of silver then actually going on in Germany and elsewhere, has expanded with admirable knowledge and economic erudition all the problems to which Mr. Webb referred but with little or no knowledge. Gold and silver productions have their ebb and flow. They have their tides and neap tides. It may be that during the last few years gold production has increased in value from 40 to 100 million pounds sterling. It may be that with the most approved scientific apparatuses and better labour organisation, mines can be reached to a greater depth to bring forth a larger quantity. But it is also known by experience that even after all efforts mines do get exhausted. Things resume their normality and prices reach their former level. It is the transition period which brings forth exceptional consequences as at present. And so far as India is concerned there is nothing unusual as far as its population is aware. For hundreds of years the mass has been known to be illiterate. For centuries India has been "the sink of the precious metals." Prices have fluctuated. All phenomena now happening, or which have happened since 1893, were there before for centuries. Even hoarding, so ancient and so immemorial, is no new phenomenon. Under such circumstances, it may be reasonably asked why all this advocacy of a freer use of gold? Why not a freer use of silver, for we can adduce overwhelming evidence that India can still have its use even in a larger degree and that without any evil consequences to the population or the State for the next thousand years. There is that well-known authority on silver, Mr. Frewen, who can enlighten Mr. Webb and the members of the Commission that a freer use of gold, despite the enormous gold production, might have been all the better for India. Whether others may agree with him or not, we say this, that on the point of greater use of silver or gold for India there can be cited authorities both ways. A new Gold and Silver Commission, like the one which sat in 1840, can alone authoritatively solve the new problems. One thing only we will say, namely, that silver is not dead as a currency. The time may come when the scramble for gold by the gold-using countries will induce altogether a new state of things. But we wish neither to dogmatise nor prophesy. All that we need say here is that the reasons assigned by Mr. Webb for his present opinions are reasons which carry no conviction. With this last word, we take leave of

Mr. Webb and once more repeat our opinion that howsoever he may have fared at the hands of the Commission, to him certainly belongs the credit of having brought that Commission into existence, which has been so far so useful as to clear away the nebulousity in which some of the problems which are being investigated were allowed to be obscured by the Government. The nebulae are being cleared and we are able now to see with a clear vision how these great monetary problems stand. That is a distinct gain and we owe it to Mr. Montagu Webb.

(XVI.)

HOW LONG MAY A GOLD CURRENCY REMAIN STABLE IN
GOLD USING COUNTRIES?

We have pointed out in the last chapter how untenable were the reasons which Mr. Webb had adduced before the Currency Commission in support of the view he presently entertained about the free use of gold by the Indian people against the one he strongly held for years in favour of the freest use of silver. We observed how the history of India for centuries past belied his statements. It may, however, not be uninteresting at this juncture to refer to some of the sound observations made on the dynamics of both gold and silver by the expert who contributed two articles to the pages of the "Edinburgh Review" in January and April 1879. It has not been always the case that gold was the dominant metal of currency in Europe as it has been for some years past, specially since the days of the demonetisation of silver by Germany in 1873. Gold currency has come into vogue there and in the other countries of Europe very recently. Even England, prior to the battle of Waterloo, was a silver-using country. Gold was a scarce commodity for purposes of medium of exchange. So that practically it may be observed with truth that prior to 1850 the world carried on its commerce mostly in silver. The discoveries in California and Australia made it possible for England to establish a gold currency on a stable foundation, say, after the severe monetary crisis of 1857. France has been bimetallic and it is even so now according to the French law. Of course, there has been a regular scramble for gold since the gold mines have been energetically and scientifically worked in the Transvaal these 20 years past. If the gold production of the world stands to-day at 100 millions sterling, it is principally owing to these



mines. One is entitled to inquire what would have been the position of the gold-using countries had there been no such extensive production? Would they have been able to maintain a gold currency at all, or even a gold standard? The answer can only be in the negative.

“THE GOLDEN CALF.”

But, of course, we take the facts as they stand. Taking them even as they are, we may put one question to those who advocate a free use of gold. Are they quite sure that a few years hence when the present mines are exhausted, unless some new fields of an extensive character are discovered, that a gold currency can remain stable? Are they quite confident that unknown factors, within the womb of Time, may not turn the scales and bring us back the “silver age,” which was the age of the world for centuries! Surely, there can be no particular charm for either the one precious metal or the other. If even a pure paper currency, costing nothing, is talked of, where may be gold or silver? The fact is that each century tries to work out its own salvation in currency, itself a child of yesterday in the world's history, according to the medium most suitable and available. Silver may supersede gold and gold may supersede silver. Indeed, with our future ages of marvellous inventions there may be some other metal which would come into favour superseding both. What is the use, then, of talking about gold as if it were the *sine qua non* of the medium of exchange. All that can be safely predicated is that for the present it is in favour with trading nations. England, of course, boasts of her perfect currency in gold. But what if British international commerce is destroyed to-morrow? Is it at all likely that all this boast of a perfect gold currency will be entertained? And if England cannot maintain it, where will the other countries stand? At the best this gold currency is the dogma of the men of commerce and industry and also of the economists of to-day. But there are no specific virtues about it. They are all infatuated or intoxicated for the time being. And everybody worships the Golden Calf which might to-morrow be hung and quartered.

POSSIBILITIES OF THE FUTURE.

Reading the history of the precious metals it may be said that there is an ebb and a flow. The flow, however, of silver was



constant and abundant till within the last 50 or 75 years, says the writer in the "Edinburgh Review". "Upon the discovery of the new world by Columbus the flood of silver and gold began to pour into Europe at the beginning of the sixteenth century." Seventy years afterwards when the flow had almost ceased, the only substantial economic fact known was the eventual fall of prices. We are now at the opening of the twentieth century, and, witnessing a similar phenomenon, but perhaps on a more extensive scale. But will it last? And if it lasts, how long? If we could venture to offer an opinion, by the light of the history of gold and silver since 1500, we would say that perchance the neap tide may soon be at hand. It has happened that these metals in their turn have had their zenith and their nadir. The moment the one reaches the meridian or rather passes that point, then it begins to decline till it arrives at the very nadir. People seem to possess a very short memory and appear specially desiderate that historical instinct which is so essential for a right comprehension of the course of gold production at present. There is nothing new in it. What happened in 1500 and later on, what happened in 1848 and 1850, is happening again. The only difference is this. That as science is advancing, scientific appliances and other new inventions are contributing to a speedier and better production. But surely, if limits were reached in that production before, may we not expect a like limit to be reached at present? In Nature action and reaction are equal and opposite. Each has its turn. The silver age had had its day and ceased to be. The gold age has come only to cease also as a system. None can deny that there was ample prosperity with the silver age. So there may be for a time, and a time only, with gold. But it should be remembered that each had also its day of adversity. One has only to recall the history of the two metals since the Middle Ages to be convinced of it. At present, because of the prosperity of British commerce, gold is in fashion, and the minor trading nations follow in her wake. Gold induces prosperity. That is the dogma; but it requires no pen of ours to say it is a fallacious dogma. There are the books of the historians and economists to point out the fallacy. Gold currency at present has been loudly advertised as the great Elixir of Commerce and Industry! But like all elixirs of human ingenuity, its efficacy may vanish any day. So that there is no saying when gold may again be discarded to be superseded by silver as silver has been since 1893?



THE ECONOMIC EFFECTS.

Who could have imagined in 1850 that in 1913 the world would produce 100 millions sterling of gold per annum? Who thought from 1850 to 1873 that silver would ever recede from 60 pence an ounce and that in the year of grace 1913 it would only be worth 28 pence or even less. But does it prove, therefore, that silver has lost its efficiency for purposes of trade and commerce? Who could forecast the near future and say that efficiency will be restored? Let the world witness a gold crisis and the answer may then be made more effectually than we can ever hope to presently. It is nonsense, therefore, for Mr. Webb, or any other person, to asseverate that Indians should have nothing but a gold currency for the future. Not only is there not much argument in his advocacy but there is besides a great danger lurking in the masses of gold, in any shape, which the golden imagination of the Goldites in India have conjured from a purely selfish point of view. The economic effects have scarcely been considered at all, while all light-heartedly have been airing their individual nostrums about the best way of keeping stable the Gold Standard Reserve and forcing gold on a population which does not want it. Mr. Lionel Abrahams alone has caught the true insight of the financial seer. In one of his important memoranda he openly expresses his apprehension as to the evil effects of large masses of gold being annually imported into India, apart from their reflex influence on Europe and notably on England. But the day is certain to arrive when they will have to rub their eyes and become alive to the dangers apprehended by Mr. Abrahams. Gold is now glittering in the eyes of the interested foreign merchants and bankers. When the scales fall from their eyes they will realise, though late in the day, the fatal hallucination under which they are all labouring at present. Without being at all dogmatic on so complicated a subject, which has to be considered from a variety of aspects, we would suggest to every student of currency not to look upon either the one or the other with disfavour. There is no charm in the one or the other. All that can be categorically predicted here is that a metallic currency is the best for a country which is best suited to its popular needs and requirements, its custom and social usages, its traditions and its environments. To talk of all else is to show the ignorance of this great and complicated problem.

MR. MORETON FREWEN ON THE DRAIN OF GOLD TO INDIA.

Before we refer to some further striking facts brought out in the evidence before the Commission, we would call the attention of the reader to certain very pertinent observations in reference to the prevailing infatuation for a gold currency made by that well-known expert, Mr. Moreton Frewen, in his paper, called "The Great Drain on Gold in India" in the pages of the "Nineteenth Century" for January last.

After lamenting the sad dearth to-day of those giant experts in currency who flourished during the last half of the nineteenth century, men like Jevons, Earnest Syed, Bagehot, Lord Aldenham, Sir Louis Mallet, Sir Robert Giffen, Cernuschi, De Laveleye, Woldowski, Walker, Senator Jones of Nevada, Dana Horton and Warner,—all great names to conjure with,—he deems it of the utmost importance that the currency policy of the Government of India should be thoroughly investigated. He suggests a Commission, but certainly none of the kind and composition of the present one. Speaking for ourselves we expect nothing very substantial from the Commission. At the best it is a kind of scratch company of arbitrators to settle the quarrels that have arisen between the clamant Chambers of Commerce in India and the India Office. How far the Government has been in the right in its policy towards the Presidency Banks, how far there have been grave financial errors in lending monies on securities which the Bank of England will not look at, what should be the limit of the sale of Council Bills, what should be the amount of the Gold Standard Reserve, and what should be the amount of metallic gold to be retained in London,—these are the points in dispute on which the Commission is to arbitrate and give its verdict. Then, it is to report whether a State Bank is at all essential, and, if so, how it may be formed, whether by an amalgamation of the Presidency Banks or by the institution of an independent Central Bank. Practically, the evidence already recorded is ample, and more than ample to arrive at a definite judgment on each of the controversial problems. And it is to be presumed, that the second session, now to re-open, will only flog the dead horse of these controversies once more without an iota of any fresh matter or any additional illumination of the subject from really brilliant or illuminating witnesses. So that those who have carefully gone over the three volumes publish-



ed can very fairly discount beforehand what may be the ultimate report which, in all likelihood, will be a majority report and a minority report.

A STRONG INDICTMENT.

Meanwhile, the problem of problems to which Mr. Moreton Frewen has drawn public attention in England is hanging fire. It means that the Home Government is altogether reluctant to raise the hurricane of the blundering currency policy which, in a moment of panic, it legislated for in 1893. We echo every word of Mr. Frewen when he says:—"In error and obsession, in flat defiance of every currency law in every book, official India ever since 1893 has just gone from strength to strength. Only a Commission confronted with overwhelming and often painful evidence, can call a halt. The Government of India, the Civil Service, all the bright pages that are so fairly the products of our occupation of India and our trusteeship,—these things are our pride and delight. But the currency policy of that Government since 1893 menaces the whole Western world, with a disaster which will put back the hands on the clock of human progress." It will.

To the uninitiated the sentence just quoted would be perfectly incomprehensible. They cannot gauge its true inwardness and ominous significance. But to the microscopic minority of the initiated it has a deep meaning of its own. It may on the surface seem the language of rhetoric. But it is not so. It is the language of the seer, who, with a clear vision, looks far into the near future. He speaks of the future with the experience of the past and of the present. Prophecy is naught else.

According to Mr. Austen, Chief of the Bureau of Statistics at Washington, the world's trade in 1912 was £7,000,000,000. Since 1895 it has increased at the rate of 7 per cent. On the other hand the annual increase in the world's production of gold is 2 per cent. And according to Sir E. Holden, one of the chief causes of the world-wide rise in prices is the immense inflation of credit money. A million sterling in gold at a Bank signifies a trade on credit ten times that amount at the very least. You have your note circulation and you have your cheque system on an extensive scale, at any rate in England. But why do these notes and cheques pass as currency? Because every holder of it knows as a matter of fact that he can convert it into gold at his pleasure. But a moment's consideration will inform him, when we push this

fact to its logical ultimatum, that were even half the holders to encash their holdings simultaneously, no gold could be found. As a result the whole fabric of credit must collapse with all the force and momentum of the avalanche. That is the one fact which has to be uniformly remembered. The inflation of credit money is going on apace at a tremendous rate. There is no break nor pause at this hour. But who can foretell when it may come? And who can foretell what may be the terrible aftermath all the world over when the financial earthquake occurs? Is there a doubt that a contraction of the inflated credit will be followed by disasters "incomparably greater" than those of 1893? The Government of India seems to be slumbering on the brink of a great precipice as far as its currency policy is concerned. It has taken no thought of the morrow. It has not taken to heart the lessons of the past 20 years. It is too short-sighted and looks to the immediate present. None thinks of the deluge to overwhelm it one day. As Sir Robert Giffen observed, England would have to engage itself again on a big war, say a war with some powerful State on the Continent, or even a combination of Continental States to discover how within 12 months, if not six, credit might collapse and specie payments have to be suspended, despite your vaunted gold production and your "perfect" gold currency. Where may the Government of India be? Where, according to Mr. Lionel Abrahams and Mr. Clayton Cole, ex-Governor of the Bank of England, they might have been in 1907 in the contingency just described?

MR. WEBB'S FORMER OPINIONS.

They are still frantically talking of free use of gold. And Mr. Webb, in justification of his conversion at present, defended his conversion before the Commission. He was of opinion from recent movements of gold that the country was going to use up more and more. Can that be a fact? Can the very imperfect statistics of the Comptroller-General be taken as gospel? Where may be the circulation? The Punjab has shewn some and Bombay some. But can it be categorically deduced from the stray movements of the last three or four years that a freer use of the yellow metal may be permanently anticipated? We have only to wait for another year like that of 1907 to be disillusioned. But, meanwhile, let us reproduce the views on gold which Mr. Webb held some years ago. Mark the confidence with which our financial Athanasius informed the world of India and England! "Sovereigns or other gold coins could



never take the place of rupees as money for two reasons: (1) The attractive appearance of the gold coins would certainly lead to their rapid absorption by the wealthier classes either for ornament or storing purposes." That is one reason. Let Mr. Webb with equal confidence answer that such is not the case now and that the people have changed their immemorial habits and are aping the worshippers of the Gold Calf of the West. (2) Mr. Webb said: "The poverty, which will be better realised when it is mentioned that most of the natives outside the larger towns have to pay the village moneylender a heavy commission in order to obtain 'copper' change for rupees, renders, a gold coin or gold in any form entirely beyond their means." Mr. Webb will again tell us with his customary confidence whether the poor villagers are now hankering after silver and gold coins in any shape rather than "copper change," and that the village moneylenders are all flush with bags of gold instead of copper.

EVILS OF A GOLD STANDARD.

And what were the evils then portrayed by Mr. Webb? Here are his words:—"The evils attendant upon a gold standard far outweigh the inconvenience offered by the Government, by the Exchange Banks, and by a portion of the Anglo-Indian community. It is certain as any proposition in Euclid that a gold standard can only be introduced into India to register the conclusion of the Home Government, arrived at the expense of the Indian tax-payer and with the effect of increasing every debt or fixed payment in India, including the debts due by ryots to moneylenders." So spake our Oracle of Karachi. Of course, he is entitled to give two different reasons now to the Commission in favour of a strong gold currency and freer use of metallic gold against the two in years gone by just quoted. If that be his present conviction we cannot quarrel with his apostasy. All that we would ask him is, how long will he entertain his present views? Will they change with the dread catastrophe so ominously limned for India by Mr. Moreton Frewen? This one incident shows how difficult and complex is this problem of what is now euphemistically called the "freer use of gold," and how few are the men even in the centre of the gold world who can tell us with confidence that all will be well with India and a gold currency, and that none of the evils from which she erewhile suffered so heavily from 1893, evils which have not all passed away yet, would recur to India's unspeakable



woe and distress? It is all very well to talk glibly of the virtues and efficacy of a gold currency for India. Viewing matters from the experience of the past history of the metals, we can only ring the tocsin of alarm and say, "pause and consider. Beware of the golden dream now so jauntily flaunted before your gaze!"

(XVIII)

ABSOLUTE ARTIFICIALITY OF INDIAN CURRENCY AND
THEREFORE OF EXCHANGE.

In these strenuous days of Marconi and Zeppelin, which have both endeavoured to annihilate time, it is not surprising that the generality of people have an exceedingly short memory. Event follows event with such rapidity that, ere twenty-four hours are old, each is forgotten. It passes into "ancient history" or the limbo of oblivion. And as to "thinking," well, we may leave that to be inferred, only reminding the reader of the satiric remark of Lord Rosebery. It is all done by the New Journalism, the basic motto of which is to eat the words to-day which were uttered yesterday, with all the earnestness and seeming gravity of the oracle of Delphi or Dodona. As a striking instance of forgetfulness, we have only to point out the series of currency pyrotechnics displayed to the gaze of the civilised world by our official currency-mongers, and their blind apologists in and out of the Press. Mr. Moreton Frewen recalls to us the phases through which Indian Currency has passed since the unstatesmanlike and panic-stricken policy of 1893, phases which have been conveniently forgotten:—

"Instead of admitting, a fair test, that no managed currency for such a community could be worked for a twelve month even by an Achille Fould, every sort of "financial rainmaker" has since 1893 enlarged on our helpless wards. First, the Gold Standard was to be changed to gold by the simple expedient of grabbing rupees wherever found, melting them and selling them for gold. In that way Germany had changed her standard, why not India? Two years later loans of rupees were made at Bombay at two per cent. per month on the security of gold bars. Next enters the era of inflation; coin all rupees you can or cannot circulate, buy nine pence worth of silver, put the King's head on it, and sell it for 16 pence. When in 1907, the Indian Currency, inflated during two years, with 400,000,000 new rupees had become apoplectic and food prices had risen 50 per cent., the wheel stopped on these mechanical assignats and the mints were abandoned until this year. Meanwhile, in February 1910, a duty of four pence per ounce was imposed on all imported silver bullion,—the first time a tax was ever imposed in all their history on one or other of the precious

metals. The idea was possibly to catch a little revenue but chiefly, no doubt, by a prohibitive duty on a very large and valuable import, the raw material, too, of a beautiful handicraft which has to compete with China and Japan,—to enlarge India's balance of trade and thus enable the Secretary of State to sell his Council Bills at some trifling advance."

This is, indeed, a faithful history of the Indian Currency since 1893 in a nutshell. It actually summarises all the correspondence, the despatches and the mazes of statistical tables which are comprised in the two volumes of Appendices accompanying the interim report of the Commission. But it is all forgotten as if it never happened! Who will deny that, after all, our currency is a State-managed one, altogether unnatural and artificial? But such is the reluctance of the officials that even so level-headed a personage, otherwise so able and capable, as Mr. Lionel Abrahams, denies, as he has done in some of the answers made, the transparent artificiality. The consciousness of the failure of currency nostrums flung in the face of the uninitiated and inarticulate masses during the last 20 years sits so heavily on the heart of the official currency empiricists, that it is not surprising they should refuse to admit that it is artificial. If you sell your rupee worth 9d. or 10d. for 16pence in order to give what is absurdly called "stability" to exchange operations, limited to foreign trade and Home Charges only, which are indeed a flea-bite in value compared to the colossal inland trade, we do not know what else to call it except "State-managed" or "artificial." Were a concrete demonstration needed to prove the fact of the artificiality, we would suggest doing away with the Gold Standard Reserve and allowing Council Bills to be sold for what they may exchange in the open gold market of London. Because you have been propping exchange for some years past with that reserve, it does not signify that any stability whatever is imparted to it. That in itself is a huge delusion. Stability can only come on a natural, not an unnatural, basis. And, therefore, all this vaunt about stability is so much simple nonsense.

THE "DRAIN OF GOLD."

Coming to this "drain of gold" by India, Mr. Frewen pertinently asks the question, what has become of the 100 millions (strictly 65 millions) of *net* gold which India has absorbed during the last few years; where can it be traced, save a little in Bombay and the Punjab? Did not the Comptroller-General observe that

“if it stayed in circulation we should expect a progression, but of such progression there is no trace”?

It should be here remembered that if the balance of trade at present is large, it is owing to two causes: firstly, because of the enhanced prices of some of the staple commodities of export, such as cotton, jute, tea and hides. The abundance of gold has everywhere given great stimulus to trade and industries. Credit has not only been allowed to expand, but inflate to abnormal proportions. There is not the least doubt that as soon as prices begin to fall, the value of exports in these commodities will decline. The second reason is the increase of normal exports. But trades have their ups and downs. And even the normal growth may be checked awhile. So that it is not to be expected that the present large balance of trade in India's favour is likely to last long. The contingency, again, of a crisis, similar to the one of 1907, is also possible. Indeed, many of the witnesses expect it, not forgetting Mr. Abrahams. You may reserve seven millions in metallic gold in England, as he suggests, but it is more than doubtful whether that sum would stem the tide of the crisis which may run down exchange and drain away whatever gold there may be in circulation. Barring these contingencies, let our currency doctors inform us how many millions more of gold will India absorb in the near future? And how many millions out of such absorption will pass into circulation so as to enable them to say with confidence, as Mr. Webb apparently does, that a free use of gold was an established fact in the country?

HISTORY THAT WILL BE REPEATED.

What is happening now is nothing new. Let us quote the able writer, once more, in the “Edinburgh Review” of 1879:—

“Elated by the high prices and general prosperity of the years 1872-3, and believing these would last, our industrial and trading classes made preparation for a great extension of business. Coal and iron were at fabulous prices; every man who happened to possess or hold on lease a coalpit was regarded as a millionaire. Accordingly scores of new coalpits were sunk and iron furnaces and iron works were erected mostly of a colossal character. In like manner new mills and factories of all kinds were built and fitted up with the newest and most costly machinery. All these involved a vast sinking of capital, yet even before the year 1873 came to an end, difficulties began. The crisis in the Money Market of November 1873 was significant of evil. Yet the warning was but slightly regarded. Then the fall of prices



began and has continued (1879) but still it was thought to be a passing decline. Then came a succession of bad harvests while the loss of wealth by the agriculturist was overlooked. The loss of wealth also from the failures of many foreign loans was very serious."

Thus the economic history in reference to abundance of gold is repeating itself and one may be sure of the repetition of the consequences that ensued after 1873 and culminated in that great depression in the eighties. Gold has again to become scarce in order that the advocates of a gold currency for India may feel to the fullest the disastrous effects which may ensue. The evil consequences will be most felt on what is called "the loanable portion of money." That signifies a rise in the Bank rate which the European merchants so awfully dread.

A FUTILE INVESTIGATION.

So long, therefore, as our present abnormal exports last, and so long as gold production in no way diminishes, all may be right. But have they carefully forecasted the opposite of the prevalent phenomena? True financial statesmanship consists not in providing for the present only but for the future. Unless Indian exports go on increasing uninterruptedly the balance of trade in India's favour cannot be maintained. But even if maintained, there is the further fact to be looked in the face, namely, the indebtedness of a country. Unless India's sterling obligations are wiped off, we make bold to say, *no permanent additions can be made to her stock of gold currency.* Thus the whole problem is complicated with factors which are dangerous. And, therefore, it is indeed too premature to talk of a gold currency and freer use of that metal, apart from the social usages, habits, and ordinary requirements of the teeming millions. Viewed from this broader and graver point of view we cannot help thinking that the present investigation is more or less futile in character. What is wanted is a Commission which would investigate those larger and graver questions, now on the horizon, but which are destined sooner or later to overtake India with the first severe crisis wrought by gold in Europe.

(XIX)

THE DISQUISITION ON "SPECIE POINT"—EXCHANGE DIFFICULTY STILL UNSOLVED.

We now hark back to some further evidence of Mr. Lionel Abrahams which is useful so far as it illumines some of the dark and devious lines of policy underlying the financial transactions

of the Secretary of State and the Government of India. Sir Shapurji was a minute, though hardly a successful, cross-examiner of the redoubtable Assistant Under-Secretary. The examination leaves on the mind of the unbiassed reader the impression more of a partisan heckler at an electioneering campaign than that of a calm and collected, a disinterested and judicial commissioner. Mr. Abraham's answers are in refreshing contrast to many of the questions. Those impress us at once as of an able and clever witness, perfectly polished, and withal alert in quickly discussing the fallacies or assumptions of a question. Presumably the answers must have quite defeated the object of the questioner. However, the pertinency of some of the queries put cannot be denied. And it may be admitted that the replies thereto were more sophistical than convincing. If Homer nods sometimes, why not Mr. Abrahams? Here is one of those questions. It had reference to the universal condemnation of the prevailing Indian currency as purely artificial. Sir Shapurji inquired whether "it was not a great advantage to have a currency system that works automatically." The answer was in the affirmative, but with an expletive to the effect, that the Indian currency system was "automatic as any currency system." Why? According to Mr. Abrahams, because the object of all the changes that have been since the date of the closure of the mints tend towards an automatic currency. Mr. Abrahams' answer will surprise those who have closely followed the protean shapes imparted to our currency since 1893 and which still continue to be imparted thereto. Only yesterday, we quoted Mr. Moreton Frewen's accurate portraiture of the various changes undergone by the system in the last twenty years. It is notorious that every step taken during the period has had only the opposite effect of the one contemplated by the currency physicians put into requisition by the Government of India. We make bold to say that the several changes have simply emphasised the artificiality imparted to the new fangled system. As soon as the first change came to be effected it was perceived to be defective and contributory to the very evil it was sought to cure. Then the second remedy was tried which proved equally disadvantageous. And so on they have rung the changes on their beautiful system of currency so that at last they are driven to have it remedied by the present Commission! Had it worked automatically, we are entitled to ask, where might have been the necessity for a Commission at all? Investigate as minutely and impartially



as you wish you will be irresistibly driven to acknowledge the transparent unnaturalness of the system. But, unfortunately, empiricism has been the badge of the entire tribe of the currency physicians who have from time to time been called upon to cure the patient.

MR. FREWEN'S EVIDENCE.

But we need not enlarge on this subject. Mr. Moreton Frewen himself will soon be a witness before the Commission. It would not be unsafe to presume that he will prove to the hilt the entire artificiality of the currency. Not only will he demonstrate the very opposite of the automatic working, but treat the members to some striking statements. He is a heretic, but one vastly different from the hasty and rhetorical Mr. Webb. He never speaks without the book, and by a long and close touch with the inner circle of advocates of monometallism, as well as bimetallism, he is in a position to speak with an authority which it will be difficult to contradict. Anyhow, apart from the subject of the artificiality of our present currency, his evidence is sure to be both striking and instructive as far as the graver problem is concerned, namely, the "drain of gold" from Europe to India and its coming economic effects on all gold-using countries, including India herself. For years past (before 1893) we used to hear the continuous cry of the drain of silver to the East. A century ago the Board of the East India Company in Leaden-hall Street were sending silver to India against which the commercial men of that City sent a prolonged wail. But the drain continued, even in more copious streams till the 13d. rupee created an alarm and caused a terrific panic in the dovecots of the Financial Department of the Government of India so unused to the silver shocks of the United States. Now, it is being dinned in our ears that the drain of gold to India is a menace both to the country and Europe. But is there no probability of a fate similar to silver overtaking gold? We shall see. Meanwhile, we are curious to know what Mr. Moreton Frewen, who is a staunch silverite, if not a bimetallist, may have to say on this exceedingly grave problem. Will he prove himself the true Cassandra of gold? Or will he go the way of all the silver and gold prophets which the nineteenth century had produced?

THE SPECIE POINT.

The next point on which Sir Shapurji adroitly endeavoured to catch Mr. Abrahams tripping was in reference to



what the Exchange Banks and other remitters of gold call the "specie point," that is to say, the point up to which it is preferable at a given hour either to ship gold to India or to buy Council Bills. The question was put in the following form:

"You have told us that the use of Council Bills for effecting remittances to India saves the loss in the shape of payments for freight and insurance and the loss of premium in Council Bills which would be incurred if the remittances were made by shipments of gold. That statement applies, I suppose, to Council Bills drawn on the Gold Standard Reserve? Is it not the case that the present system, as a whole, in the absence of a gold currency, really increases the freight and insurance charges in the movements of specie. When you have the cost of remitting gold from India by drawing Council Bills, the cost of silver to take the place of gold is incurred, is it not?"

The reply was:—

"I would most strongly contest that because it rests on the assumption that if the Government acted differently from the way in which it does not, the people in India would use less gold. That I think is opposed to all the probabilities and all the known facts.

But bating not a jot Sir Shapurji, after a brief parley, pursued Mr. Abrahams in this wise: "I am anxious to dwell on this point. The people who discuss this question often put the query why does not the Government give India a gold currency?" To this Mr. Abrahams made the following terse answer:

"I am anxious to say that in my humble judgment, that is, I will not call a meaningless question, but I think it comes very near to being a meaningless question, because the Legislature has declared gold to be a legal tender. The Government gives all the encouragement that it can to put into circulation such gold as it possesses, and therefore up to the requirements of the people of India there is a gold currency, and the obstacle to gold being more used in currency is not that the Government of India fails to encourage it, but that the people of India prefer other forms.

Opinions will, of course, differ on this vexed subject. There are those who do say that so long as Government cannot freely and unstintedly give gold for rupees there cannot be in reality a gold currency.

ARE WE OUT OF THE WOODS?

Mr. Abrahams was subtle but hardly convincing. At the same time it will not be denied that there is as yet no large demand for gold by the generality of the people. The demand is almost



exclusively confined to the foreign traders. Has any person a clear idea in his own mind of what the effect of an actual gold currency all at once may be? What, if that currency is repelled by the people? If the mass refuse to accept it for their daily domestic and other requirements, to what use may the superfluous gold be put? Other larger and graver economical problems are intertwined with it, and if Mr. Abrahams thought Sir Shapurji's question was on the border line of meaningless, perhaps, those who, like us, view the matter from the broader standpoint, would not say he was not justified in saying what he did. Here we discern the moral of Pope's line that a little learning, be it on currency or other matters, is a dangerous thing. Sir Shapurji views all from the purely professional point and not from the point of the far-seeing financial statesman, who has to look to the great economic welfare of millions. And when we bear in mind how currency minutely enters into the daily vital economy of vast masses of people and affects them, we cannot but be too cautious as to how grave currency problems should be examined and investigated from all points of view, not only from the point of the professional business man, but from the higher, the more altruistic, and far-sighted point of the statesman entrusted for the time with the destinies of a great country. The words of the late Sir Robert Giffen need to be firmly remembered at this juncture in reference to the Gold Standard Reserve. Writing to "The Times" on 18th May, 1898, he observed: "The highest political issues are also involved. One of the most dangerous things for a Government to do is to tamper with the people's money. Is it certain that the Indian Government cannot go on long with its present ideas regarding money without producing the gravest complications in the Government of India." Are we out of the woods? Let the Government answer the question.

(XX)

THE CURRENCY POLICY OF THE GOVERNMENT HAS BEEN
A CHAPTER OF COLOSSAL BLUNDERS SINCE 1893—
FALLACY TOUCHING SUBORDINATION OF INDIAN
INTERESTS TO LOMBARD STREET.

Some questions which Sir James Begbie put to Mr. Abrahams were exceedingly pertinent, as pertinent as the one about the artificial character of the currency put by Sir Shapurji. One of



such questions was whether or not the Gold Standard Reserve established in India was not exceedingly "peculiar" in its origin, differing so far from the Reserve established in other countries. Sir James pointedly put it to Mr. Abrahams whether any of the "old" Gold Standard countries "had anything like the Gold Standard established in India." The answer was in the negative. The Gold Standard Reserve in India had its origin in the profits of a colossal magnitude which the Government derived from selling its rupee at sixteen pence when it cost no more than nine or ten pence. The obvious inference was that had there been no coinage of the enormous character between 1901 and 1906, no such profits would have accrued and the Indian Government would have been at its wit's end to provide an adequate Gold Standard Reserve to keep exchange stable at or about sixteen pence. Sir James astutely followed up Mr. Abrahams' significant reply by querying further as follows:—

Do you think the Committee of 1898 anticipated there would be a coinage of rupees on the scale that has taken place when they recommended a special reserve of that sort?

Here is the instructive answer:

I do not think that one can answer that question and I may put to you the difficulties. On the one hand it is quite clear that they did contemplate coinage in the future, because they provided what should be done with the profits of such coinage; but so far as I can gather they probably thought there would be less rupee coinage than has actually taken place, because they expected the gold would go into the currency more freely.

Facts, as all are aware, have been to the contrary. They conclusively demonstrate the point we elaborated in the last chapter as to the remedy defeating the object in view.

A FRANK CONFESSION.

Sir James, however, pursued the question a little further. He asked: "As a matter of principle do you think it advisable to have a token coinage on such a vast scale as in the case of India?" The answer was: "No, I think if the proportion of the token coinage to the gold currency gradually falls it would be a good thing. But I should like to say, and this is equally important to my mind, that I think it would be a very evil thing that the Government should take steps to divert the feelings of India with regard to the currency metal that they prefer into any



other direction than what they would naturally take." Here is a frank confession of faith, to the effect that it would be an evil thing for the Government to change the currency metal of Indians into one which they do not naturally like! Here, we see, the Government is impinged on the horns of a dilemma. You may establish a gold currency, but the people will not take to it. On the other hand, you have to maintain a huge token currency, aye, not only to maintain it, but increase it from time to time as you have been compelled to do so! How may the two co-exist—a gold currency which will not circulate among the masses and yet have it side by side crores of silver, a token coinage, which the people prefer and want in increasing quantities from time to time *pari passu* with the growth of population and the expansion of the inland trade which depends on increasing agricultural products? That is the dilemma. A similar dilemma overtook Germany. Though silver was demonetised there in 1873 and though every effort was made subsequently to that year to reduce the circulation of thalers, it became absolutely essential, such was the irony of the situation, to coin an immense amount of new silver thalers at the close of the nineteenth century! So that after 25 years or more Germany was unable to prevent a larger circulation of thalers! Just imagine how Germany, Austria and other countries may fare with a gold famine which may stare them later on?

ECONOMIC WOES IN STORE.

To us, it is clear as the noon-day sun that all the strenuous and costly efforts that the Government of India have been obliged to put forward, efforts which have hardly been crowned with success, were a chapter of successive blunders. That is to say, in other words, the closure of the mints against silver was a financial blunder of the first magnitude. Despite what was happening in the United States since the passing of the Bland Act, had the Government not been carried away on its feet, egged on by Lord Inchcape and the vociferous foreign traders whose sole interest centred in exchange, normality would have returned within a very reasonable time. Exchange would have remained on a natural basis in parity with gold, the exports of the country would have been immensely stimulated by the cheaper silver, and the Government would have no more found it difficult to remit the Home Charges at current rates of exchange, be they at a



shilling or sixteen pence, than at eighteen and twenty-two pence. No dislocation might have taken place. None of the hardships which have arisen from the depreciated and the artificial rupee might have befallen vast masses of the population. Other economic consequences might have never ensued. And India would have prospered to-day infinitely better than it might prosper even 25 years hence under the vaunted gold currency,—a fetish which still infatuates the blind worshippers of the metal and vexes the soul of the witches who are from time to time supposed at the seat of authority to boil the cauldron of currency. Verily, it is the case not only of “boil and bubble,” but boil and trouble. And it may be anticipated from the half-dozen empiric and futile remedies of the past 20 years that even the recommendations of the present Commission will bring no rest to the Government. It will be a Himalayan task to force gold into circulation among the masses who will want more silver as our abundant harvests bring to the inland markets larger and larger agricultural crops. The Nemesis of events in the near future will reveal the further tale of economic woes for India now in the womb of Time.

THE ONLY SOUND CURRENCY FOR INDIA.

It is curious that while they of the Commission have been putting all sorts of questions on coinage, on the absorption of gold, on the absorption of silver, and so on, each from his own point of view, here and there questions have been unconsciously put to elicit answers which only emphasise the postulate that the people of a country should have the currency they require. Mr. Keynes interrogated Mr. Abrahams about his comparative tables of gold and silver absorbed by India, during the last 14 years, namely, 64.81 million sterling of gold and 66.75 million sterling of silver, and inquired whether the absorption of the yellow metal meant that that value of gold was in circulation. The answer was in the negative accompanied by the following important observations: “You pour gold into circulation and then India may or may not use it as a circulating medium.” Immediately Mr. Gillan seizing the point questioned Mr. Abrahams as follows: “Is your view with regard to the internal currency simply that the only duty of the Government is to see the people get the kind of currency they want?” Mr. Abrahams answered, “Yes.” Further queried, “whether it is not necessary for the maintenance



of the purity of exchange that it should be a gold circulation," the answer was, "quite so." The object of the two queries, on behalf of the Government, was no doubt to place on record that it is a "mistake" of those who assume the contrary. But who are they? Of course, those who have been clamouring for a full gold currency, that is, the foreign trader! But apart from this "important mistake," Mr. Gillan's questions and the replies thereto suggest a very serious point. If the Government is anxious "to see the people get the kind of currency that they want," why are they bothering themselves these many years to establish a Gold Standard Reserve and taking pains to encourage a gold circulation? Why should they do the one or the other? The Government cannot deny that the currency the people want is silver. Why force aught else? Mr. Abrahams' answer implied, on the basis of the statistics of the absorption of gold and silver during the last 14 years, that Government are encouraging *both gold and silver*. That, Mr. Moreton Frewen would characterise as a bimetallic currency. Are the Government slowly becoming alive to the fact that, as in France, the only sound currency for India is a bimetallic currency? Are they seriously taking thought of the prevailing phenomenon of the great drain of gold from England to India, and of the apprehension of Europe as to the effect of such a drain on international monetary transactions in gold? It is *bimetallism* which has made France stronger to-day, as the "Statist" observes in its issue of 4th October, in the whole of Europe as regards currency, aye, stronger than England, which boasts of her "perfect" currency, but which shrewd economists have found to be full of grave fallacies. We at least should not be surprised were the trend of international movements of gold to lead eventually to the recognition of bimetallism as the future currency of the entire world. However, it is futile to cry while we are still not out of the tangled forest of monometallism.

INTERESTS OF INDIA AND LONDON.

A further pertinent question may also be referred to here, namely, whether it was a well-founded criticism that Indian interests were very often subordinated by the India Office to the interests of Lombard Street. Mr. Abrahams' reply was in the affirmative so far as that criticism went, but it was not correct, as Mr. Keynes himself put it, namely, that "occasionally the interests of the London Money Market and the interests of India



do not coincide." There is a coincidence and no more. The interests of India, according to Mr. Keynes, "very frequently depend in a very marked degree on the state of the London Money Market." Our own feeling is that owing to the absence of any fiscal independence, India is at the mercy of England in many a matter of trade and finance (the imposition of the Indian excise duty, for instance). Her interests are thus obviously subordinated to English interests. We are disposed in this particular matter to agree with Messrs. Keynes and Abrahams, specially after the very disinterested and unbiassed evidence—we should call it non-partisan—of Mr. Clayton Cole, ex-Governor of the Bank of England. As far as Indian gold movements are concerned what seemingly looks as a special consideration to Lombard Street, is nothing of the kind in reality. If we trace matters concretely we shall discover that the criticism so far is unfounded. Here is a concrete instance illustrated by Mr. Abrahams in response to the criticism touching more gold going into India than required: "I think that there is very little substance in it. If we sold our Council Bills in a very different way from that in which we do sell them, I have no doubt that a great deal of gold would go out to India and would remain there for a time, and would then come back as indeed was the custom years ago, that is to say, if you look at the history of our treasury transactions between 1899 and about 1905, you will find there was a continual outflow and inflow of gold—all very wasteful and doing good to no one." The fact is that the trading class here, which is influential and clamant, is hardly in touch with the statics and dynamics of gold in London which is acknowledged to be the stronghold of that metal for all international exchanges, a position which cannot be claimed either by Paris or Berlin or New York, and are not careful and cautious enough, when criticising a certain line of policy adopted by the Secretary of State or the Government of India in certain circumstances, to make assertions by which they can afterwards stand fast. Over and over Mr. Abrahams' evidence has conclusively established the fact of the ill-founded and ill-informed character of many a criticism made by the foreign Chambers and their partisan organs of public opinion. A fallacious opinion is manufactured and engineered to circulate freely, causing entirely a misleading impression on the uninitiated public till authoritatively denied or contradicted. But it is rueful to have to relate that fallacies in



India, whether circulated by the benefited or unbenefited bureaucracy, die hard, while no end of mischief is created. However, one salutary result of the present Commission is that that it is slowly but conclusively clearing away the jungle of financial and currency fallacies in which the commercial agitators had so long been propagating to their heart's content. That is a distinct advantage to the Indian community who are not infrequently misled by such sweeping and self-interested assertions.

(XXI.)

STRONG VIEWS OF THE EXCHANGE BANKS—A
NON POSSUMUS AS TO A STATE BANK AND
A GOLD MINT.

In the evidence given by Messrs. Toomey and Fraser, we are able to acquaint ourselves with the view entertained in common by all the Exchange Banks of India save the Delhi Bank. Both witnesses had many years' experience in India by reason of their connection with their respective branches. As to sale of Council Bills the opinion was firmly held that the system in vogue was exceedingly satisfactory, and so far the Exchange Banks have no grievance, unlike the Chambers of Commerce. The system is well handled. The sales are up to requirements save in certain cases where a large sale is necessary. Those excess bills are sold at a premium. So far, then, the Exchange Banks consider that the excellent system in vogue is the result of many years' experience.

As to loans to Presidency Banks by Government, another of the hollow cry of the Chambers, the two representatives of the Exchange Banks were of opinion that it mattered little whether there was or there was not such lending. In England the monies of India are lent at interest by the Secretary of State for a short period, say, at the utmost for four or five weeks. Here in India, they want monies to be lent for the long period of three months, practically during the period of the full busy season. The question was asked: "Suppose the practice was adopted and suppose that they had lent out considerable sums in India, do you think any difficulty would be caused on any occasion when they were unable to lend?" The answer was: "No, because the market has been getting on well enough without those Government



loans." If, however, loans are to be made, the Exchange Banks would recommend that the rate of interest charged should be one per cent. below the Bank rate. That would be the profit of the Banks which would lend the monies to their customers at the Bank rate on good securities. In reality, then, it would seem that this is a matter not worth bothering for. The essential fact which the public learn from the experience of Exchange Banks is that the monetary market is able to get on well enough without the loans. So, here again, one discerns the hollowness of the cry of the Chambers. As we have stated from the very outset the time has now arrived when the Presidency Banks, which are certainly not in their swaddling clothes, should carry on their monetary business without any help from the Government. They are sufficiently strong and self-reliant. The Chambers have indeed been very short-sighted in demanding this concession so late in the day. Thirty or forty years ago there might have been some justification, seeing that banking resources and banking facilities were extremely limited. That condition not only does prevail but has given place to one in every way satisfactory from the public point of view, namely, the immense expansion of banking, despite the fact that their cash reserves, as the two witnesses shrewdly observed, were not so large for emergencies. But experience is a good teacher. Some of the banking failures at the present hour have made plain the absolute necessity of larger cash reserves to withstand temporary stringency of a severe character.

SWADESHI BANKS AND SHROFFS.

Chastened by experience the Banks will certainly hold larger reserves in future which would inspire greater confidence than hitherto among investors. What is almost forgotten by those who look askance at what are called "Swadeshi" Banks, that during the last fifteen or twenty years they have been widely instrumental in all parts of the country in attracting timid folk with small savings to place them with their Banks. The small rills have so far been useful to fertilise what was once a barren soil. In other words, banking, in however small a way, in many places where banking on the English system was entirely unknown before, has facilitated to a fair extent monetary accommodation for the small trading classes who formerly used to rely on borrowing at a high rate of interest from the local shroffs.



The shroffs, great and small, in the rural and commercial life of numberless towns in India, have been of the greatest service. Their vocation is not gone. They have yet a most respectable clientele, poor but honest, whom they ably serve. If the interest rate is high, the risks are also great. But apart from the service which our new shroffing institutions on English principles are rendering, they have also reasonable educating influence which is destined to be far-reaching in its consequences later on. They have already taught the semi-illiterate and the timid to deposit with the Banks and have thus showed the way against hoarding. The second concrete lesson inculcated is the greater prosperity than before of the town. Every rupee taken out of the hoard and put into circulation is profitable both to the individual and to the community at large, and so this important lesson is taught by our infant Banks. It is a source of satisfaction of course. Human cupidity, which is everywhere the same, in the black-skinned or white-skinned, will sometimes bring disasters. But what of that? Have we not known that walking erect signifies only a series of falls for the child beginning to learn its lessons? Banking is in its infancy yet. Is it surprising if there are a series of falls now and again? They should be anticipated. But the time must come when the Banks, arriving at the age of adolescence, will be strong and self-reliant. Let those who are now condemning Swadeshi banking wholesale, owing to the lapses of some discreditable banking management, with which, of course, we have no sympathy, pause for a moment and recall the many stages of failure, disasters and so forth, in England, from the days of the South Sea Bubble to those of the Bank of England Charter Act of 1844. India, we should say, has not experienced anything of the evils of those failures save the gigantic one in Bombay in 1865. And if we look more closely we shall find that the Bank of England even in face of the Charter Act of 1844 had had three times to go to the Government to have the Act suspended during some grave historical crises.

THE GOLD STANDARD RESERVE.

We shall not weary the reader with a reiteration of the stock arguments *pro* and *con* touching the problem of accumulating in liquid gold the amount of the Gold Standard Reserve. Opinions have varied. Some, like the vociferous Mr. Webb, are all for retaining it in India, while there are others, more careful and

thoughtful, who are for allowing a larger portion to remain in London, where alone, in times of stringency or famine, when Council Bills cannot be easily sold, as was the case in 1907, gold is at once useful for the immediate purpose of the State. Here, the two representatives of the Exchange Banks have given most valuable and convincing testimony which should be read in the original text, in favour of a large retention, say ten millions sterling in London, despite all the questionings and cross-questionings of our good friend, Sir Shapurji, who has been showing himself quite a master in the art of currency sophistry. But let us at least quote the most pertinent answer made in reference to the questions on this subject: "A criticism has been advanced in some quarters as to the action of the Secretary of State in keeping the Gold Standard Reserve in this country. It has been urged that the reserve is kept in the country in the interest not of India but of London. What do you say on that?" The reply was: "London is the only market where the Gold Standard Reserve should be kept." Then we may refer to Sir Shapurji's question which he pressed so hard on the two witnesses, whether 100 per cent. of the Reserve should not all be kept in gold. "As bankers you are not without experience as to what you would do with the money. It is not your practice to keep 100 per cent. in gold, is it?" "No" was the laconic reply. "What do you do in practice? Do you not have in your front line cash, then money at call, then short dated securities and then investments?" "Yes." "You would not dream of keeping 100 per cent. in gold?" "I would not dream of keeping it all in gold. I think that would be too wasteful and extravagant."

A HARD NUT TO CRACK.

As to the establishment of the State Bank, the representatives of the Exchange Banks were quite opposed. They had good reasons for their opinion. In the first place they did not know what more the State Bank could do than what is being conjointly done by the State in co-operation with the Presidency Banks. Secondly, as to Council Bills they were perfectly satisfied with the existing system. Thirdly, no greater efficiency could be imparted to the management of the Paper Currency than that by the Government of India. Not only is it efficient but well controlled. That much cannot be averred of the proposed Bank. Again, it was problematical whether a Bank, even with 5 millions



sterling, could earn a fair profit, because it was the case in India that the best months of profit were only the three of the busy seasons during which there has been occasional stringency. The Presidency Banks could easily obviate it by increasing their present capital to a certain limited amount. Viewed from all points the State Bank practically would be a white elephant on the hands of the State. That was the opinion of the Exchange Banks. But they at once acknowledged that the Bank should run counter to their own interests if the new situation was allowed to do exchange business. Practically the Banks were laid out for the accommodation of the foreign trade and the concession, if given to the State Bank, would in reality be tantamount to a monopoly of transactions in exchange, and so far the avocation of the Banks now established for half a century will be gone. Here it was a question of vested interests. But we will not again refer to this most controversial subject on which opinions are widely divided. The hardest nut for the Commission to crack will be this. Speaking entirely from the point of view of the public we should suggest that the Commission will carefully consider the advantages and disadvantages of the proposed institution from the same point, whether in the interests of the Indian taxpayers such a costly luxury, and the problematical benefits, is at all wanted at the present stage in the country. The Commission need not take the views of the interested witnesses, be they of the Presidency Banks who pull one way or those of the Exchange Banks who pull the other way.

A GOLD MINT.

Lastly, very many questions were put by a number of members of the Commission as to the suggestion touching a gold mint in India. The substance of the many answers was emphatically in the negative. It would be a waste of public money without being in any sense useful to the masses for purposes of forcing gold into circulation. This part of the examination was enlivening and instructive and we would strongly commend students of currency to study it. It is impossible we can refer to it. In fact, so far as we have perused the evidence we find that there is a *non possumus* on this subject. So we may leave it severely alone. On the whole we are gratified that these two representatives of the Exchange Banks gave their evidence without any equivocation or hesitancy. Like Mr. Abrahams, they stood by their evidence.



in-chief despite the severest and most searching cross-examination by the "experts" on the Commission.

(XXII)

EVIDENCE OF TYPICAL WITNESSES REPRESENTING
THE ANGLO-INDIAN MERCANTILE COMMUNITY.

We might now refer to the evidence of typical witnesses from among the Anglo-Indian mercantile community of each Presidency. That of Mr. Marshall Reid for Bombay is in no way striking or suggestive. He is one of those who think it a good thing if "the trade" is helped from Government balances during the busy season. It is curious how when these mercantile witnesses speak of "the trade" they have in mind the foreign trade of India only, that is to say, the trade between the United Kingdom, chiefly, in imports and exports. Nobody has advocated help to the colossal inland trade by temporary dips into Government cash balances during the busy season. Can it be that the inland trade as is now carried on stands in no need? Or is it that the indigenous shroffs, large and small, are able to carry it on without invoking temporary "bakshis" for nothing or at a low rate of interest from the State. What are these cash balances? Are they not made up of collections of the revenue from all India? Who may be the largest contributors? Do the Anglo-Indian mercantile community contribute the largest portion? Or is it the mass of the people? It may be reasonably asked whether the Government should listen at all to the cry of a minority who contribute the least to the taxes but who are the loudest to promote their own interests by having a dip in balances which do not belong to them. We do not know whether this statement of fact has ever struck any member of the Commission. At any rate, we have failed to discover that a single member has directly or indirectly put a question on this point to any witnesses,—not even the Indian member who has been so eager to trip up witnesses in regard to views they may have expressed in reference to the hackneyed Gold Standard, Gold Currency, loans on interest, State Banks and so forth. On the other hand, it shows how grudgingly has the Government invited competent Indians to appear as witnesses. When we say competent we mean such practical men of business as have closely followed for years the many State financial



transactions which are annually carried on. Practically, the examination or investigation now conducted at the India Office is purely one-sided. The teeming millions are wide apart and absolutely negligible and unrepresented. A handful of foreign exploiters are considered as if their interests alone were concerned!

MR. REID'S VIEWS.

But to proceed. Mr. Reid was of opinion that there is always a monetary stringency in India. It "cannot be avoided" even "apart from the operations of the Government." Push this statement to its logical conclusion. If it be that stringency is chronic in this country is it right to rely now and again on Government partially to ease it, and that at the cost of the general tax-payer? Common-sense would dictate that in a country where a particular class of traders constantly felt monetary stringency they would devise means of so increasing facilities for monetary accommodation as to relieve such stringency. But India is anomalous in this respect as it is in many other respects. And so here is this economic anomaly of a handful of foreign traders, never helping themselves, but crying aloud for help from the State to which they contribute only a fraction!

As to the proposed State Bank, Mr. Reid was in its favour. To do him justice we shall quote his reasons:

"In the first place the control of the finances would be in the commercial centres where the money is wanted and where large financial operations take place. They would control the balances and the reserves, and make them available as far as might be desirable to trade. No doubt they would guide the people as to the best form of currency they ought to use, and if it were paper currency they would take steps to popularise it."

This is Mr. Reid's opinion when the two representatives of all the Exchange Banks gave quite a contrary opinion and when they were perfectly satisfied with the way in which the State was conducting its currency operations and sales of Council Bills. It is to be presumed that the Commission would give just weight to the opinions of the Banks' representatives, who spoke from their practical experience, in preference to an individual opinion of a firm transacting limited business and that commercial, not financial.



"RAILWAY FINANCIAL RAKES."

Mr. Reid was of opinion, at least as far as Bombay is concerned, that the excessive sales of Council Bills sold last year were in disregard of all exigencies of exchange. Touching gold coinage and gold mint he expressed himself unfavourably. But as to railway development Mr. Reid declared himself to be a member of that valiant band of railway financial rakes who want without pause or breath railway extension hither and thither. The question was asked: "Do you agree that India can have hardly too much of railway development?" The bold answer was, of course, "Yes." He was for a railway programme of a definite character without reference to the budget. As to the funds for such breathless railways he was of opinion that India could find any amount of capital, provided the loans were wholly raised in India. It was pointedly put to him: "How much money do you think you can get in India for those purposes?" "There is no end to the amount on which we could count." "Who are the people who will take such loans as are now issued?" "Very largely, to begin with, the Presidency Banks, but increasingly up-country I consider." In fact, to a further question Mr. Reid replied: "I believe there is an enormous amount of money that will be available if it can be got at." Here some curious reflections are suggested. It has often been said and written that India cannot respond to any large loans if raised in India for railways or public works. There have been Finance Ministers and other official and non-official persons who have averred that large railway loans, say for 10 or 12 millions sterling, can only be raised in London. It was owing to a strong belief in that opinion that Lord Inchcape's Committee on railways advised, chiefly on the suggestion thrown out by Lord Rothschild, that it was expedient and advisable to borrow largely beyond the annual requirements for railways, whenever the Secretary of State found the London Money Market favourable. And that has been done. Then, again, there are other authorities who say that the hoarded wealth of India is great but it is doubtful, or even more than doubtful, if it could be dragged from its dark cells, to be invested in railways. Against that statement there are those who are sceptic about the "hoards" unless they be the hoards of a Maharaja of Gwalior or of Indore.

or of some of the territorial magnates, or zemindars like those of Darbhanga or Burdwan. Thus the problem is enveloped in uncertainties.

RUPEE LOANS.

On our part we have always been advocates for rupee loans on the ground that interest can be paid in rupees and that these rupees can always remain in India to further fructify with the people. At present the interest on all railway loans, amounting to 12 crores, is annually drained away never to return. To that extent India is impoverished of its capital. Capital begets capital, but when capital is withdrawn at the rate mentioned, India can hardly be in a position to increase its capital. Apart from this important economic fact, we are still of opinion that the Government of India should try the raising of a rupee loan for railways and other works at the rate of 10 to 12 crores per annum in India. Let the trial be carried on fully and fairly for three years at the very least. That will be a practical test to inform us whether India can take out money from its hoarded wealth and invest it in productive works. Let the rate be four per cent. If the Municipalities and other Trusts are able to raise every year a crore and more at four per cent., surely, it stands to reason that a State loan, the solvency of which cannot be gainsaid, could be raised. The only problem is whether India will find the money. The test is what we have suggested. If India can give 10 crores in a year at four per cent. the interest thereon will be forty lakhs. Those forty lakhs it is to be presumed will remain in the country. In other words, the interest will be fresh capital—the very thing we seek for. So that under all circumstances we are in favour of the trial being made. At any rate Mr. Reid, we are glad to see, has been outspoken on this subject, though most sanguinely. But it is a relief to notice that at least one Anglo-Indian mercantile member is in favour of raising railway loans in India.

(XXIII)

EVIDENCE OF TYPICAL WITNESSES.—(Contd.)

We now review the salient points elicited in the evidence of Mr. William Bernard Hunter, as representing the Bank of Madras and the Madras Chamber of Commerce, and Mr. Harry Marshall

Ross, retired export merchant, who was also a representative of the Bengal Chamber of Commerce. Mr. Hunter was a sober witness of great fairness. He had no heroic suggestions to make. His answers were more or less those of a Bank manager of local experience with well thought-out individual opinions of his own. He was quite correct when he observed that the primary use of Council Bills was to meet the State requirements, but for some years past the fundamental object has been to settle the balance of trade. In practice it is so; but it remains to be seen what opinion the Commission passes on this subject. High politics are, of course, involved in an impartial consideration of this branch of the financing of the Secretary of State. Does the Government of India Act of 1858 warrant the use to which Council Bills are put? It may be that from the purely financier's point of view this mode of settling India's trade, specially during the last few years that the trade has turned in her favour, is unobjectionable. But the question, we might say, the larger question from the point of view of the statesman, is quite a different thing. The monies are the monies of the tax-payers of India. That being so, is the State justified in establishing a mode of financing which, in the first place, is unknown to all civilised States in the West, and which, in the second place, is in practice exceedingly sectional? Most of the foreign trade is in the hands of the foreign merchants who trade with India to acquire wealth. Is it fair and equitable, under the circumstances, to make available in the manner it has been done for years, the monies belonging to the millions of the tax-payers for the accommodation of these people? That is the politico-economic question to which we shall eagerly look for a satisfactory reply. It would be grievous were this answer shirked. In that case, it will be open to any member interested in Indian affairs to provoke questions in the House of Commons and raise a debate thereon. Over and over again it had been declared in State despatches and by responsible Ministers of both the great parties that India is governed in the interests of the Indian people. How far is this declared policy consistent with this financing of Council Bills for the purposes of affecting a settlement of the balance of trade is a serious question. We say naught on the balance of trade itself as it is not quite relevant to the currency problem. It is, however, a large economic problem by itself which is generally talked of most superficially. What may



be the true balance of India's trade is a problem yet to be solved by practical economists. Mr. Hunter was in favour of a Central Bank, that is, a Bank amalgamated of three Presidency Banks, with its head office in Calcutta, because he was of opinion that it would be in greater touch with the public. He was strongly of opinion that one of the causes of the chronic stringency was the establishment of so many treasuries with accumulations there. It would in time of stringency be able to finance better and be a great help to the London office.

NOT IN FAVOUR OF A GOLD CURRENCY.

Like many experienced bankers Mr. Hunter was in favour of the gold standard being kept in London, which, it was repeatedly averred in the Commission's proceedings, is the centre of the gold market of the world. In his own opinion a gold mint in India was a waste. Little gold from the people would go there to be coined unless it be in famine times. Neither was he in favour of a gold currency, for it was a sanguine expectation to forecast that gold will by and by come into active circulation. The Hindu and Mahomedan laws of Bengal and Madras forbade any such circulation. Hoarding was absolutely essential. Gold for purposes of circulation would not be forthcoming in any large quantity. He was strongly in favour of expansion of note circulation and the universalisation of notes for encashment in all India. As to the loans, Mr. Hunter did not think the State could raise larger loans in this country than the amount it is raising, unless future loans were borrowed at a higher rate of interest and that for a fixed period. That, however, will have the effect of depreciating the large stock of existing rupee loans. We are, nevertheless, of belief that the existing loans might be called out any day by Government by an executive resolution and renewed on a par with the new 4 per cent. loans but redeemable at a fixed period.

MR. ROSS'S EVIDENCE.

Coming now to the evidence of Mr. Ross, it may be observed that he also was extremely moderate in his views. His suggestions, too, were modest and modestly obtruded on the notice of the Commissioners. It is a pleasure to go through the evidence of Messrs. Ross and Hunter. There was not much of one-sidedness or advocacy of extreme selfish class interests. Whatever their

personal opinions they were unbiassed, and supported by their own personal experience. Mr. Ross was quite sound when at the outset he frankly gave out his view that the budgets of recent times have been unduly "pessimistic." Hence it is that there have been larger surpluses at the close of the year than were budgetted for at the opening. That has been an old trick of our Imperial bookkeepers. Over-estimate expenditure and under-rate revenue, that is the shibboleth of Civilian Finance. Trained English financiers have no doubt tried to get rid of that trick but the incorrigible Financial Department has always been resourceful enough to put lions in their path and checkmate their independent method of estimates. For the last 25 years much criticism has been offered on the subject but to no avail. They are always moving in a vicious circle. This trick which Mr. Ross politely calls pessimism, was prominently brought to the notice of the Welby Commission by some of the Indian witnesses supported by figures shewing how revised estimates jumped on budget forecasts and how closed accounts showed even bigger jumps over revised estimates. The arithmetical abracadabras of the Financial Department are many and astonishing. With this master-key or shibboleth one can always unravel the surpluses and show up the way in which they have been worked out. Latterly, they have all got hold of that classic phrase which the genius of Sir Guy Wilson has brought so much into popular use. That agricultural prospects influence revenue in any country is no new thing. But when it was no longer available to Finance Ministers to make use of exploded fallacies—the obsolete shibboleths of "low exchange" and the "precariousness of opium receipts,"—they invented this time-worn plea of agricultural prospects, which depend on the final character of the annual monsoon. "Gamble in rain" is a catching phrase. For an ingenious Finance Minister it can cover any multitude of financial sins of omission and commission. Are custom receipts less? Is the export duty on rice smaller? Straightway the rain answers for it. Bad agricultural year has depressed trade, so they say, and diminished customs receipts; so also diminished rice crop has left less for export with a diminished yield of duty and so on. They can ring a dozen changes on this tune of "gamble in rain." But how hollow is the plea? Surely, every State in Europe and in America has to contend with the fluctuations of the weather and therefore of agricultural crops from year to year. Do the financiers of



those countries ascribe their diminished revenue or even deficits to a "gamble in rain?" Let us see what satisfactory justification Sir Guy Wilson gives to the Commission in this important financial topic.

THE BEST POLICY POSSIBLE.

We honour Mr. Ross for admirably sticking to his views on budget surpluses and unnecessary taxation. They were greatly needed by way of honest criticism. It is really now an evil to the flesh to the reviewer who has to iterate and reiterate about lending of cash balances at a low rate. It now palls on us as much as the tale of the Grandfather's Clock. So we must say no more on this eternal tick-tick of the Commission clock on cash balances, loans, modes of sale of Council Bills, gold circulation, gold mint and State Bank. There may be here and there a radical difference of views but generally they are in unison, and the upshot of it all is that on the whole the policy pursued by the Secretary of State is not open to much criticism. Barring some modifications in details his policy is the best under the best possible circumstances. That is the substance of most of the Anglo-Indian witnesses, save that our Karachi currency Athanasius.

However, here are some terse but pregnant observations of Mr. Ross: "I think that the question of the use of a gold currency will be *solved ultimately by the people of India, quite independently of any efforts that we can make.*" That is one of the few robust and frank observations made by any Anglo-Indian witness. It shows Mr. Ross is a careful currency student. Economists have proclaimed that the currency of a people is the one which best suits their requirements. Ergo, it must be left to each people to choose whether they will have silver or gold, copper or cowries, fish or fowl. You can have a "standard" of value in each and adjust your mutual barter and bargains accordingly. Another of Mr. Ross's suggestions was selling freely Council Bills at 1s. 3-29/32d. He said: "I think the public which has invested gold in the purchase of rupee is entitled to have that gold returned at the gold export point which is 1 3-29/32. The third sound remark of Mr. Ross was about that precious shibboleth, "balance of trade." He sententiously observed: "The balance of trade with regard to India has always been a puzzling expression. It is very difficult to say what is the true



'balance of trade.' " One of these days we shall independently expatiate on this puzzle so variously explained by officials of whom the latest and most "authoritative" is Sir Theodore Morrison.

A TELLING EPIGRAM.

Speaking, or rather damning with the faintest of faint praise, the institution of a State Bank, Mr. Ross gave us another of his telling epigrams: "Predictions in India are more dangerous than in any other country." For a verification one has only to take down the forecasts of a Finance Minister since 1893, if not before, and compare them with his apologia in the budget for the following year. He will have ample pabulum to emphasise Mr. Ross's terse observation. Speaking on surplus and unnecessary taxation Mr. Ross considered the income tax to be odious alike to the Indian and the European. His point was this: the great aim of the Government of India should be "to get the native of India to invest his money in joint stock enterprises and securities, but no sooner has he done so than Government sweeps down on him for a tax, and if there is one thing hated by the Indian more than another it is a Government tax. It is no encouragement to the bringing out of hoards to tax them at once when they appear and you can lay hold of them. I consider it to be an inadvisable tax politically, as applied to the Indian." Opinions here will differ. We are not aware in this Presidency of joint stock enterprise being arrested because of the income-tax which is now acquiesced in as an evil to be endured without murmur. But it may be that Mr. Ross is right from the Bengal point of view. There the Bengalee hates the income-tax as much as the Bengal Chamber of Commerce and its members. The loudest agitation during the first few years of the reintroduction of the tax in 1886 was from Bengal, Indian and Anglo-Indian. As usual Sir Shapurji was prominent in his heckling pastime, especially on budgets, surpluses, loans and so forth. But Mr. Ross was more than a match for our intrepid inquisitor. What an excellent exhibition might we have if Sir Shapurji himself were to exchange places. Suppose Mr. Abrahams was the cross-examiner and Sir Shapurji, the witness, the great protagonist of the Indian Financial Department, which curiosity enough has come to regard him as a Daniel of Indian Finance! It would be an inspiring gain to see him fairly caught in the pillory by his great inquisitor. It is to be feared he has entirely missed his function as a commissioner.



POLICY AND PRINCIPLE.

We have now brought to a close our criticism on the evidence of the typical witnesses. We have amply referred to that of Mr. Lionel Abrahams, as the stalwart of stalwarts of the India Office and the Government of India. We have had that of Mr. Clayton-Cole, a typical ex-Governor of the Bank of England, fully free from any kind of the bias or prejudice of the interested Anglo-Indian classes. We have had the evidence of Mr. Montagu Webb, the great opponent of the policy of the Indian Government whose incessant agitation resulted in the appointment of the Commission. Then we have had the evidence of two most experienced representatives of all the Exchange Banks in India, save the Delhi Bank, and, lastly, that of three typical representatives of Bombay, Madras and Bengal. We have tried, so far as space permitted, to put fairly before the public the salient points urged by each of the witnesses, without any unnecessary repetition or wearisome reiteration. We have tried to illumine such evidence by the light of our own free and unbiassed experience, holding the scales even. Attached to no party but interested solely to examine all views from the point of view of the Indian public, we have offered our own humble criticism. Our object has been to make the unthinking think; and to see that the thinking were not wedded to their own views; that, in one word, they were not dogmatic. Let us hope we have fulfilled the object. There only remains for us to sum up what has been already said, so far as the present report goes. Of course, many more witnesses will be examined during the session just opened. There will be time enough to comment on that evidence. What we are most anxious about is not the details of the quarrels on more than one head which had led up the Commission, but policy and principle. Are these in consonance with the axioms of public finance and currency laid down by eminent economists? If not, how far they have fallen short of them? The Indian public is interested on those points only. They are far more important than all the small talk recorded in the pages of the three volumes of report about what A or B or C thinks of the manner of the sale of Council Bills, of the rates of interest on Cash Balances on the amount of the larger cash balances, on the greater circulation of gold on the gold standard, on a gold mint and on the advisability or inadvisability of a State Bank. All these to us are so much



"leather and prunella." These will not advance by an inch the economic progress of the country. We want to see how far there is affirmation of policy and principle in the matter of Indian finance and currency.

(XXIV.)

CONCLUDING OBSERVATIONS.

We have now dealt with the evidence heard up till now by the Royal Commission on Indian Currency, during the first term of its sittings. It will be useful presently to give expression to the reflections suggested by that evidence. What further new evidence may be presented during the current session we shall not know till the final report is published. But it is unlikely that anything new or striking will be revealed. At the best, there will be no doubt more expert evidence, and some of a rebutting nature too. Practically, the subject may be said to be already exhausted. And what may henceforth be urged will be a thrice-told tale. What, then, are the inferences which may be fairly and reasonably deduced from the evidence already recorded? Let us review them, briefly, one by one. Firstly, there is this question of Cash Balances. It has been demonstrated to conclusion that the heavier balances of recent date have had their origin more in exceptional circumstances than in any new secretly defined policy agreed to between the Secretary of State and the Government of India. So far the allegation as noisily set on foot has been knocked on the head. Then as to the expansion of public deposits in the Presidency Banks to ease an approaching monetary stringency, opinions seem to have been divided. Some have averred that the stringency, more or less, is to be discerned every year, and that a few more lakhs of rupees in the tills of Presidency Banks do not help it one way or the other. On the contrary, if the monetary market knows that for a certainty the Presidency Banks need no aid from Government, a better and securer feeling would supervene which might be of the greatest advantage to the money market. There are some who think that the balances should be enlarged during the busy season when the district treasuries everywhere are overflowing with revenue collections. But at the same time it has been proved that the Government may at any time need the



monies for emergency and if the Banks could not immediately repay them on demand, it might cause considerable embarrassment to the Government and rather aggravate the stringency than remedy it. Sound finance suggests that the less the monetary market relies on Government help the better. As to lending the funds of the State, when there is a large surplus cash balance, it is merely a question of what kind of securities should be deposited, what should be the limit of the amount of the loans, and what should be the rate of interest. Here there is a pretty general agreement and both the Exchange Banks and the representatives of the mercantile community are of opinion that it is expedient to fix the rate of interest at one per cent. below the Bank rate.

Secondly, as to the sales of Council Bills. It has been proved that during the last few years Council Bills have been sold considerably in excess of the requirements of the State. But what may be deemed *requirements* is a moot question. Do these signify the money annually budgetted for Home charges, amounting to 18 millions sterling, or those charges plus certain other amounts for railway purposes, or for what is called the settlement of the balance of trade? The other point in connection with the sale of Council Bills is as to the manner of selling them, whether these should be freely sold from day to day at a fixed rate say 1s. 3-29/32d., or whether at a rate which may be in the near neighbourhood of the specie point which, as far as Egypt, India or China is concerned, is a varying item. Thirdly, as to the Gold Standard Reserve. The main trend of the investigation was centred in the location of the gold, whether it should be in India or in London, and what proportion should be so kept. It was also to be determined whether the whole amount of the reserve should be in "metallic" gold, or part in gold, and the rest in gold securities of a liquid character, that is to say, which might be easily sold. Mr. Clayton Cole opined that a certain portion must always remain in gold in London,—such gold, as he pointed out is never accounted for in the weekly gold reserve of the Bank of England. As to the proportion so to be reserved, he left it to the Secretary of State to determine. Other witnesses were in favour of ten millions of gold in London, while Mr. Harold Ross was in favour of thirty millions of gold being accumulated first, and thereafter wholly kept in London to meet any crisis or the severest stringency occurring in India owing to an acute famine. But none



agreed with Mr. Webb, that the gold of the Gold Standard Reserve, whatever the amount, should be allowed to remain in India, and India alone. Fourthly, touching the freer use or larger circulation of gold. In other words, as to the advisability of having a sound gold currency. Here, again, opinions are greatly at variance. Some are for gold currency at all costs and hazards, but without reflecting on the vast amount of silver token coinage, a coinage which will have to be increased largely from time to time, and its consequent effects not only on India but on the international money market. Here, too, Mr. Webb is the valiant protagonist, after having been up to 1907 the strongest opponent of gold currency in any form. Then, there are others who wish that Government should always be prepared, when called upon, to give gold in exchange for rupees. While another set of witnesses would leave that power in the hands of Government, that is to say, that that authority may withhold or pay out gold at its discretion. A fourth set considered that there should be no direct or indirect coercion in the use of gold, but that the Government should popularise more and more its notes, so as to expand their circulation and greatly economise the use of gold. Lastly, there were others who thought that the people of India should have that currency which most suits their daily requirements and social usages. Fifthly, there was almost unanimity on the subject of the undesirability of a gold mint and a separate gold coin of ten rupees. It was generally pronounced to be a waste of public money to have a gold mint. Lastly, there was the question of a Central Bank, that is, an amalgamation of the three Presidency Banks, or the institution of a State Bank, principally controlled by the State. Different witnesses entertained different opinions and practically there was a tendency more or less to hold that no case was made out for such a Bank and that its establishment was exceedingly problematical as to results both to the State and the general monetary public.

Our own view of the matter is that all these several points did not demand for their solution the costly Commission which is now sitting. Graver matters involving huge annual burdens on the poor tax-payers of India, whose ability to bear additional taxation is extremely limited, have in the past 55 years, since the passing of the Government of India Act of 1858, been disposed of by a small Committee of independent experts chosen from both



Houses of Parliament. Sometimes departmental Committees have been held as the records of the India Office will testify. At the best we feel that the questions now under investigation might have well been entrusted for inquiry to a small Parliamentary Committee of monetary experts. Practically, it seems that there were disputes as to five different matters of a financial character between the Indian Government and the Secretary of State on the one hand, and a fractional minority of Anglo-Indian merchants on the other. We say "fractional" advisedly. Because the enlightened Indian public never complained nor agitated on these questions. The interests of the foreign merchants—we use the term not in any offensive sense—alone led to the agitation. Had Indians set on foot such an agitation they would never have succeeded in getting a Royal Commission so speedily appointed. It took fully ten years for the Government, after the agitation commenced, to appoint a Royal Commission on Indian expenditure. Indians with real substantial grievances are all "agitators" in the maleficent significance of the word. But when an interested class, a fraction of the population, but powerful and influential, agitate for redress of grievances far from reasonable and substantial, they are no "agitators!" What India wants at present in reference to the gravest financial and economic transactions is a well-reasoned and statesmanlike declaration of the policy and principle on which these should be conducted. Will the Commission pronounce or lay down such policy and such principle? If it does, then, to a certain degree, its institution will be justified. We speak of policy and principle, because, since 1893, we find that policies and principles on currency as well as finances have been constantly changing. As to the former, we have shown what protean shapes it has taken. The Government has never known its mind for two or three years consecutively. One set of arrangements are resolved to-day to be superseded by another to-morrow. So that, as Mr. Moreton Frewen has very properly shown, we have had nothing like a definite policy and a fixed principle in the matter of currency since the closure of the mints. Is Government prepared to persevere with its gold currency? Has it counted all its gains and losses? Has it taken into account the prevailing "drain of gold" which the men of the West declare is threatening and liable to upset the whole international monetary world? Has the Government considered the baneful influences of such a world-

wide disturbance on the Indian people? A dozen other questions in connection with it can be suggested, and we are curious to know whether the Government has any fixed mind whatever on this grave subject. Or is it ready to be carried away by the inconstant, mischievous current of the interested opinion of a fraction of the population? If under any circumstances, as Mr. Abrahams has proved, silver and gold are equally in circulation, can there ever be in India a monometallic currency? What have we now? And what are we to have in future? At present, as Mr. Moreton Frewen observes, we have a 'bastard bimetallism.' Is that bastard currency to continue? If so, what may be its ultimate effects again on an uninitiated population which has meekly and mutely borne these twenty years all the evils that have arisen from the empiric currency practised on them. Those are the larger and graver questions of colossal importance which demand a close investigation.

Then as to Council Bills. It is a moot question as to the purposes for which Council Bills were first brought into play. Was it not for the purpose of solely and exclusively enabling the Secretary of State to draw on the Government of India for the disbursement of the annual Home Charges? Was it ever contemplated that the Bills were to be made an instrument to facilitate the settlement of what is euphemistically called the "balance of trade"? We make bold to say such an idea never entered the heads of the earliest Secretaries of State. It was never contemplated. It is a practice which has come into use largely during the last ten years, and on our part we regard it as an abuse of the original purpose for which these sales were instituted. Nowhere else in the civilised world is a balance "settled" by Government with the aid of bills. Bills there may be in any quantity, but they are between debtors and creditors through the instrumentality of bankers but nothing more. The existing practice of Councils is a glaring anomaly and the sooner here, too, a definite pronouncement of the principle and policy of Government is made, the better. It seems that we are going back to the days of John Company when it was a pure trading company. We cannot shut our eyes to the fact that, though there may be a difference in the mode of accommodating commercial transactions, the principle of the existing practice is the same as old John Company followed a century ago, but under altogether different commercial and political conditions, and which was universally condemned.



It may be asked for whose benefit is the Gold Standard Reserve established? Is it for the benefit of the indigenous Indian population? If not, it is a serious question whether it should continue to be maintained. If we have a currency and exchange to-morrow on a *natural* basis, not artificial as at present, Government can easily balance their budget and taxation and do without this prop of a Gold Standard Reserve. So long as they go on tinkering and tampering as they have been doing, there will never be any real stability to exchange, and no natural currency for the people. One has only to contemplate the distressing condition to which India and the Indian Government may be reduced by a stoppage of the annual sterling loans for three years and by the abolition of the so-called Gold Standard Reserve. There is not the least doubt that the entire financial house of the Government would collapse like a house of cards. But there are eyes which will not see and there are ears which will not hear. And it is superfluous to say that the Day of Reckoning must come, though it may be long in coming. Governments are never forewarned and forearmed. When overwhelmed by a sudden crisis, they are seized with panic and try hurriedly to retrieve a position which is inevitable. Such, we believe, is the fate that ultimately awaits the present tinkered and tampered currency. A severe crisis will teach the needed lesson, but at what cost and at what a huge sacrifice?



EXPANSION OF BANKING.

RELATION TO GROWTH OF TRADE.

TO THE EDITOR OF THE "TIMES OF INDIA."

Sir,—In view of what is being presently urged in the public prints and elsewhere on the desirability of making available to trade a reasonably larger amount of the swelling cash balances of the State idly accumulating at a certain season in the Presidency Banks and the numerous treasuries, it will not be unuseful to take a broad survey of the expansion of banking in India in harmony with the growth of trade, chiefly foreign, say, from 1900-01 to 1911-12, for which period there are complete accounts available.

The question whether it is obligatory on the Government to make available a part of its cash balances, and if so, to what extent, is indeed a complicated one. It belongs in reality to the category of public finance in relation to high politics in the first instance, and, in the second instance, to the tax-payers. But in view of the investigation of this subject by the Royal Commission on Currency, it is expedient to refrain from a discussion of it at present. It is more profitable to refer here exclusively to the practical question which is of greater interest not only to the commercial bodies in the country but the public generally.

It is superfluous to observe that trade in every country is broadly divided into two branches, the internal and the external. In other words, that which is carried on within a country itself and that which is carried on with countries abroad. Indian inland trade is very much larger than her foreign or seaborne trade. It is provincial and interprovincial. But unfortunately no official statistics of this trade are available. All that the Government of India in its statistical department is able to offer to the commercial public is the annual Blue-book which records the volume of goods in quantity only, carried backward and forward from one Province to another by rail and river. The public would gladly welcome a statistical return giving the values of such goods which may be seemed fairly reliable. It may be worth instituting what is called a census of production, triennially if not annually, which may tell us of the total value of all agricultural products, of industries and manufactures, large and



small, and other kindred matter. If the Board of Trade is now able to present such a census from time to time, I do not see why a similar census cannot be taken here. In the present head of the Commercial and Intelligence Department we have a most capable officer with a complete grasp of practical economics, strong evidence of which is to be discerned in the issues of the weekly *Trade Journal*. It is needless to say that our external trade is the balance generally of the total agricultural products, industries and manufactures after what has been retained in the country. When the values of the production are available, it would not be difficult to assess what may be the aggregate of the annual inland trade. In the absence of these most important statistics it is futile to discuss the question as to what may be the amount required to finance the inland trade.

Leaving aside this larger problem it may not be uninteresting to review by the aid of the statistics available the growth of our seaborne trade with foreign countries—imports and exports—and banking from 1900 to 1911. Exclusive of treasure, the imports and exports of private merchandise during the period under review may be tabulated as under:—

		Crore Rs.	
1900	Imports	30.89	
	Exports	104.42	
			185.31
1911	Imports	144.05	
	Exports	221.87	
			365.92
		Increase	180.61

It will be noticed that the growth of the foreign trade has increased 97 per cent. in twelve years.

Turn we now to the progress made in banking deposits during the same interval. For purposes of a broad comprehension the figures may be exhibited as under:—

		In Crore Rs.		
Capital and	Reserves of Presidency	1900	1911	Increase.
	Banks	5.60	7.00	1.40
Do.	Indian Banks	1.27	4.12	2.85
Do.	Exchange Banks			
Total		6.87	11.12	4.25

Net Deposits, that is, deposits less Cash Balances—

Presidency Banks	10.64	24.99	14.35
Indian Banks	6.88	21.67	14.79
Exchange Banks	8.11	23.60	15.49
Total	25.63	70.26	44.65
Grand Total	32.50	81.33	48.88

Thus, while the capital and reserves have increased by 4.25 crore rupees, net deposits have increased by 44.63 crore rupees. The aggregate increase is 48.88 crore rupees equivalent to 150 per cent. It is not recorded in the official statistics, the amount held by the three classes of banks in securities which must have been partly held against capital and reserve though it can only be fractional. So, too, as to part of deposits which for a time may have been lying idly without profit. Anyhow, the total amount of securities so held will not materially influence the question one way or the other.

If, then, imports and exports have shown between 1900 and 1911 a growth of 97 per cent. and banking capital and reserve and net deposits a growth of 150 per cent., is it possible to conceive that our trade is inadequately served? Are the facilities provided by the different banking institutions insufficient to carry on Indian trade? Let our enlightened and well-informed experts answer the question.

In this connection it is needful to remember that besides the banks there is a large number of substantial private bankers, and shroffs all over the country, from the village bania and marwari to the great leading millionaires of the type of Mr. Sewlal Motilal, whose capital and deposits are unknown but which must be of considerable magnitude. It is well known that these private bankers and shroffs generally finance with profit the greater part of our internal trade.

Again, it seems that while trade is expanding the Government is not unwatchful. During the same period the amount of notes in active circulation has greatly increased. In 1900 the amount of such notes was 28.73 crore rupees while in 1911 it was 54.99 crore rupees, equivalent to an expansion of nearly 92 per cent., which curiously enough approximates closely with that of the combined imports and exports.



Were one to venture to draw inference from the facts above stated, he would say that our banking institutions have so far well responded to the demands of trade. And if we can argue by analogy from this experience of the past twelve years it might be fairly asserted that the progress will continue. In other words, there is every expectation that our banking operations will keep pace with the growing trade. Commercial crises may sometimes arrest for a time the progress. But the crises having passed the progress would again go on. There may be monetary crises also. That depends on more than one cause. It is an accident, but the question is how far monetary stringency is created by admitted dearth of financial facilities and resources and how far by temporary causes, be they political or economic or climatic or all combined.

It is also useful to recall the fact that while the volume of trade may be either stationary or progressive, its value may be considerably enhanced by the higher prices ruling for large exports of staple commodities. We have seen how, owing to an unusual demand outside in 1910 for rice, the price of that commodity rose from Rs. 106 per 100 baskets each of 46 lbs. in Rangoon to Rs. 113.5 in the following year and 145 to 170 in 1912. Next raw hides which fetched Rs. 875 per cwt. sold for Rs. 945 in 1911 and Rs. 1,209 in 1912. Jute, again, which realised Rs. 52 per bale of 400 lbs. in 1911 obtained Rs. 56.4 in the following year. Similarly, with manufactures of jute which rose from Rs. 30 to Rs. 33. When we have in mind the enormous quantities of these staple commodities which are annually exported, some idea may be formed of the demand for money under such abnormal or temporary conditions. Or to take a case nearer home. Who is unaware of the cotton prices which were vastly endeared two years ago and also during the first three months of this year's busy season. The average price was Rs. 325 to Rs. 350 per candy of 784 lbs. There was a rise from 75 to 100 rupees. That indeed was a serious matter of financing both for exporters and consumers in the country. And when we take the fact that on an average the yearly production of cotton comes to 40 lakh bales or 20 lakh candies, an estimate of the financing required at the higher price may be easily formed. But banking and lending firms cannot with the demand of a temporary abnormal character of some branches of the trade. What we ought to consider is the normality of the expansion of trade *pari*



passu with the growth of banking. If the one fairly responds to the other it would be unreasonable to cry aloud. It should rather be the principle of our enterprising and well-informed experts in commerce to view what may be the financial facilities and resources in proportion to the volume of trade, irrespective of any outside aid as that which may be afforded by State Cash Balances. It would be the counsel of perfection so to grasp the true principle for comprehending the use of money in its relation to trade as to avoid artificial redundancy which may eventually prove a source of inflated credit and therefore of disruption of credit eventually. Otherwise it is to be feared the evil of interested alarm and ignorant panic may needlessly disturb the even course of commerce and finance.

D. E. WACHA.

25th August, 1913.

WHY NOT A NEW BANK ?

TO THE EDITOR OF "THE CHRONICLE."

SIR,—Here is something exceedingly toothsome to digest for our commercial "agitators" who have been sending forth a prolonged wail touching the temporary fat cash balances in the State treasury. In the "Banker's Magazine" for August there is a paragraph noticing the position of that exceedingly flourishing and strong banking institution known as the "Credit Lyonnais." The bank has just celebrated its jubilee, having been founded by M. Henri Germain who continued to be its President till his death in 1905. Started with a modest capital of 20 million francs, it boasts to-day of one of 250 million francs. But that is not enough. In the latest balance sheet the deposits are recorded for the colossal figure of 83.86 million pounds, while the discounts recorded came to 56.54 million pounds, loans to 29.71 million pounds and advances against securities to 14.48 million pounds. The Indian Presidency Banks were established somewhere in 1840, that is 73 years ago or nearly a quarter of a century before the date of the institution of the "Credit Lyonnais." The old Bombay Bank came to grief by the combined folly and reckless speculative instincts of the management in 1867. On its ashes was built



the present bank which will no doubt celebrate its jubilee six years hence. But just consider for a moment the following figures and contrast them with those of the great French monetary institution with its 120 branches:

Capital and Reserves 7 crores 4.66 million pounds.

Deposits 25 crores 16.66 million, pounds.

Thus the combined deposits of the three Presidency Banks, which included public deposits also, after well-nigh three quarters of a century, come to a paltry 16 millions against the 85 millions of the "Credit Lyonnais"!

Of course, it may be readily admitted that banking, in its legitimate sphere, is of slow growth in this ancient country which is still supposed to "hoard" monies, to what extent heaven only knows! All that we know is that India is not the only country which hoards, and, so far, is no exception to the general trend of humanity with wealth or savings. It may also be admitted that India is poor even to-day, with all its resources, aye, poorer than the poorest country in Europe. But having regard to these economic facts, it may still be inquired whether it is impossible for those who are moving heaven and earth to have an occasional dip of a couple of crores into the treasury of the State, which in reality is the trustee of the *general* tax-payer, and not of any particular interests, articulate or inarticulate, influential or un-influential, to display their commercial enterprise and establish a bank in our midst with a modest capital of 50 lakhs, which would respond to the growing wants of the annually expanding trade? Why appeal to Hercules? Why pant for a State crutch? Cannot they put their shoulders to the wheel and show those commercial and banking instincts which have made London, the real banking Babylon of modern times, the world centre of credit and exchange? Surely, the stalwarts who met the Finance Minister the other day and lugubriously dwelt on their so-called grievance, are strong and influential enough to float their bank? Are the Grahams, and a host of others, too poor to establish one? Surely, my esteemed friend, with such a grasp of business economics as Sir Charles Armstrong, is a host in himself to promote one? If only he puts forward half his energy into this enterprise he could easily raise the capital which is certain to inspire greater confidence than half a dozen banks so-called of recent growth whose stability remains to be tested by any monetary crises, which,



sooner or later, must overtake us. If the enterprising Messrs. Tata & Sons could get 50 lakhs of 5 per cent. preference shares subscribed in a trice, and if there was no difficulty for the Port Trustees to get their loan of 75 lakhs subscribed, and if the Municipality can easily get its loan also for nearly a similar amount, is there a doubt that Sir Charles will be able to get his 50 lakhs?

But, Sir, I do hope our European Chambers of Commerce will cease appealing to the Government to help them with some of the net surplus cash balances now and again. To me it appears that such an appeal is humiliating. It is every way better to be independent of the State in matters of commerce and industry. Our Chambers have only to display their sterling English commercial and banking instincts, their enterprise and courage in order to meet the expanding trade. They will thus set a good and beneficial example to the country and become the pioneer of many a modern banking institution of a like character which is sorely wanted.—Yours, etc.,

D. E. WACHA.

September 3rd.

